

**OFFICIAL STATEMENT  
TENNESSEE STATE SCHOOL BOND AUTHORITY  
HIGHER EDUCATIONAL FACILITIES  
SECOND PROGRAM BONDS  
\$149,130,000 2013 SERIES A**

**Dated: Date of Delivery****Due: November 1 (as shown on inside front cover)**

This Official Statement has been prepared by the Tennessee State School Bond Authority (the "Authority") to provide information relating to the Authority's Higher Educational Facilities Second Program Bonds, 2013 Series A (the "Offered Bonds"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Offered Bonds, a prospective investor should read the Official Statement in its entirety.

<b>Security</b>	The Offered Bonds are special obligations of the Authority payable solely from and secured by Annual Financing Charges (as defined herein) payable to the Authority by the Board of Trustees of The University of Tennessee and the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee, Legislative Appropriations (as defined herein) payable to the Authority and other funds as more fully described herein. The Authority has no taxing power. (See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein).
<b>Purpose</b>	See "PURPOSES OF THE OFFERED BONDS" herein.
<b>Interest Payment Dates</b>	May 1 and November 1, beginning May 1, 2014.
<b>Interest Rates/Prices/Yields</b>	See inside front cover.
<b>Denominations</b>	\$5,000 or integral multiples thereof.
<b>No Debt Service Reserve</b>	The Offered Bonds currently will not be secured by any funded debt service reserve. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Debt Service Reserve Fund" herein.
<b>Book-Entry Only System</b>	The Depository Trust Company. See Appendix F.
<b>Redemption</b>	See "DESCRIPTION OF THE OFFERED BONDS – Redemption" herein.
<b>Tax Exemption</b>	Interest on the Offered Bonds is excluded from gross income for Federal income tax purposes to the extent and subject to the conditions, limitations and continuing compliance with tax covenants as described herein.  The Offered Bonds and the interest thereon are exempt from Tennessee taxes, subject to certain exceptions.  See "TAX MATTERS" herein.
<b>Ratings</b>	See "RATINGS" herein.
<b>Trustee/Paying Agent</b>	Regions Bank, Nashville, Tennessee.

*The Offered Bonds are offered when, as and if issued and received by the Underwriters subject to certain conditions, including the approval of legality by Hawkins Delafield & Wood LLP, Bond Counsel to the Authority. Certain legal matters in connection with the Offered Bonds are subject to the approval of the Attorney General and Reporter of the State of Tennessee, as counsel to the Authority, and Bass Berry & Sims PLC, as counsel to the Underwriters. The Offered Bonds are expected to be available through the facilities of The Depository Trust Company on or about November 21, 2013.*

**J.P. Morgan**

**Citigroup**

**Morgan Stanley**

**Raymond James**

**Dated: November 7, 2013**

**TENNESSEE STATE SCHOOL BOND AUTHORITY**  
**Higher Educational Facilities Second Program Bonds**  
**Maturities, Amounts, Interest Rates, Yields/Price, and CUSIP Numbers\***  
**\$149,130,000 2013 Series A Bonds**

<b>Due</b>		<b>Interest</b>		<b>CUSIP*</b>
<b><u>Nov. 1</u></b>	<b><u>Amount</u></b>	<b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>880558</u></b>
2014	\$3,765,000	2.000%	0.180%	DP3
2015	4,490,000	2.000	0.320	DQ1
2016	4,605,000	3.000	0.560	DR9
2017	4,770,000	4.000	0.840	DS7
2018	4,990,000	5.000	1.180	DT5
2019	3,180,000	5.000	1.580	DU2
2020	3,345,000	5.000	1.970	DV0
2021	3,515,000	5.000	2.310	DW8
2022	3,695,000	5.000	2.520	DX6
2023	3,885,000	5.000	2.710**	DY4
2024	4,085,000	5.000	2.900**	DZ1
2025	4,295,000	5.000	3.080**	EA5
2026	4,515,000	5.000	3.230**	EB3
2027	4,745,000	5.000	3.390**	EC1
2028	4,990,000	5.000	3.540**	ED9
2029	5,245,000	5.000	3.670**	EE7
2030	5,515,000	5.000	3.790**	EF4
2031	5,795,000	5.000	3.870**	EG2
2032	6,095,000	5.000	3.950**	EH0
2033	6,405,000	5.000	4.000**	EJ6

\$25,045,000 5.000% Term Bond due Nov. 1, 2038, Yield 4.220% \*\*, CUSIP\* 880558EL1

\$32,160,000 5.000% Term Bond due Nov. 1, 2043, Yield 4.310% \*\*, CUSIP\* 880558EK3

---

\*These CUSIP numbers have been assigned by Standard & Poor's CUSIP Service Bureau, a Division of The McGraw Hill Companies, Inc., and are included solely for the convenience of the Bondholders. The Authority is not responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Offered Bonds or as indicated herein.

\*\* Yield to first optional redemption date of 11/1/2022.

This Official Statement does not constitute an offering of any security other than the Offered Bonds specifically offered hereby. No dealer, broker or other person has been authorized by the Authority to give any information or to make any representation other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, the Offered Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

Certain information set forth herein has been provided by the Authority. Certain other information set forth herein has been obtained by the Authority from sources believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. In making an investment decision, investors must rely on their own examination of the Authority and the terms of the offering, including the merits and risks involved.

The prices and other terms respecting the offering and sale of the Offered Bonds may be changed from time to time by the Underwriters after such Offered Bonds are released for sale, and the Offered Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Offered Bonds into investment accounts.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE OFFERED BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

**NO REGISTRATION STATEMENT RELATING TO THE OFFERED BONDS HAS BEEN FILED WITH THE SECURITIES EXCHANGE COMMISSION (THE "SEC") OR ANY STATE SECURITIES AGENCY. THE OFFERED BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR ANY STATE SECURITIES AGENCY, NOR HAS THE SEC OR ANY STATE SECURITIES AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.**

In making an investment decision, investors must rely on their own examination of the Authority and the terms of the offering, including the merits and risks involved.

## TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION.....	1	Other Post-Employment Benefits.....	17
PURPOSES OF THE OFFERED BONDS.....	2	REVIEW AND APPROVAL PROCESS FOR FINANCING OF	
Application of the Offered Bond Proceeds.....	2	PROJECTS BY AUTHORITY.....	17
Sources and Uses of Funds for the Offered Bonds.....	3	RATINGS.....	18
DESCRIPTION OF THE OFFERED BONDS.....	3	LITIGATION.....	18
General.....	3	TAX MATTERS.....	18
Fiduciaries.....	3	Federal Tax Matters .....	18
Redemption.....	3	State of Tennessee Tax Matters.....	20
SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.....	4	Miscellaneous Tax Matters.....	20
Financing Agreements.....	5	FINANCIAL ADVISOR.....	20
Annual Financing Charges; Fees and Charges.....	5	APPROVING LEGAL OPINIONS.....	21
Legislative Appropriations.....	6	ADDITIONAL INFORMATION; CONTINUING	
Statutory Covenant.....	7	DISCLOSURE.....	21
Flow of Funds.....	7	UNDERWRITING.....	21
Debt Service Reserve Fund.....	7	FORWARD LOOKING STATEMENTS.....	22
Additional Bonds.....	19	MISCELLANEOUS.....	22
Qualified Swaps.....	10		
Subordinated Obligations; Commercial Paper.....	10	Appendix A – Financial Statements of the Authority.....	A-1
Certain State Law Bondowner Remedies.....	11	Appendix B – TSSBA Selected Statistical Information.....	B-1
Termination of Existence.....	11	Appendix C – Glossary of Certain Terms.....	C-1
Recent Amendments to the Act, the Resolution and the Financing		Appendix D – Summary of Certain Provisions of the	
Agreements.....	11	Financing Agreements.....	D-1
THE AUTHORITY.....	12	Appendix E – Summary of Certain Provisions of the	
Membership of the Authority.....	13	Resolution.....	E-1
Outstanding Indebtedness of the Authority.....	13	Appendix F- Book-Entry Only System.....	F-1
TENNESSEE PUBLIC HIGHER EDUCATION.....	14	Appendix G – Summary of Certain Provisions of the	
General.....	14	Continuing Disclosure Undertaking.....	G-1
Capital Projects.....	14	Appendix H – Form of Proposed Opinion of Bond	
Outcomes - Based Funding.....	15	Counsel.....	H-1
Employee Retirement Benefits.....	15		

## **TENNESSEE STATE SCHOOL BOND AUTHORITY**

Bill Haslam, Governor, *Chairman*  
Justin P. Wilson, Comptroller of the Treasury, *Secretary*  
Tre Hargett, Secretary of State  
David H. Lillard, Jr., State Treasurer  
Larry B. Martin, Commissioner of Finance and Administration  
Dr. Joseph DiPietro, President of the University of Tennessee  
John G. Morgan, Chancellor of the Tennessee Board of Regents

### **STAFF**

Sandra Thompson, Director of State and Local Finance, *Assistant Secretary*  
Ann V. Butterworth, *Assistant Secretary*  
Jacqueline Felland, Bond Accountant  
Sharon Schmucker, Bond Accountant

### **BOND COUNSEL TO AUTHORITY**

Hawkins Delafield & Wood LLP, New York, New York

### **AUTHORITY'S COUNSEL**

Attorney General and Reporter of the State of Tennessee, Nashville, Tennessee

### **FINANCIAL ADVISOR**

Public Financial Management, Inc., Memphis, Tennessee

**OFFICIAL STATEMENT  
TENNESSEE STATE SCHOOL BOND AUTHORITY  
HIGHER EDUCATIONAL FACILITIES  
SECOND PROGRAM BONDS  
\$149,130,000 2013 SERIES A**

**INTRODUCTION**

The purpose of this Official Statement (including the cover and inside cover pages hereof and the Appendices hereto) is to set forth information concerning (i) the Tennessee State School Bond Authority (the “Authority”), (ii) the Board of Trustees of The University of Tennessee (the “Board of Trustees”), (iii) the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee (the “Board of Regents”), (iv) the Institutions (as defined below), and (v) the Authority’s \$149,130,000 aggregate principal amount of Higher Educational Facilities Second Program Bonds, 2013 Series A (the “Offered Bonds”). The Board of Trustees and the Board of Regents are referred to collectively as the “Boards”. “Institutions” consist of (i) the University of Tennessee system, including all of its branches and divisions wherever located, and the services, programs and activities provided therein, and the Board of Trustees, in the aggregate, and (ii) the State University and Community College System, including all of its constituent institutions, wherever located (whether or not conferring degrees), and the services, programs and activities provided therein, and the Board of Regents, in the aggregate.

The capitalization of any word not conventionally capitalized and not otherwise defined herein indicates that such word is defined in the Glossary of Certain Terms attached hereto as Appendix C, in the Resolution (as defined herein), or in the Financing Agreements (as defined herein).

The Offered Bonds will be issued pursuant to the Tennessee State School Bond Authority Act, as amended, Sections 49-3-1201 *et seq.*, Tennessee Code Annotated (the “Act”); the Higher Educational Facilities Second Program General Bond Resolution adopted by the Authority on April 27, 1998, as amended May 9, 2013, authorizing the issuance thereunder from time to time of Higher Educational Facilities Second Program Bonds (the “Bonds”); and a Supplemental Resolution adopted by the Authority on September 16, 2013, authorizing and providing for the issuance of the Offered Bonds (such General Bond Resolution as amended and supplemented from time to time, including by such Supplemental Resolution, the “Resolution”). For a “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION”, see Appendix E.

The Act empowers the Authority, among other things, to issue its bonds and notes to obtain funds, or to refund its bonds or notes issued to obtain funds, to finance higher education facilities (as defined in Appendix C, the “Projects”) for the purposes of the Institutions and the Boards.

A portion of the proceeds of the Offered Bonds will be used to retire a portion of outstanding Commercial Paper heretofore issued pursuant to the Act and a Commercial Paper Resolution adopted by the Authority on November 18, 1997, for certain Projects (all Commercial Paper issued under such resolution, the “Commercial Paper”) and to finance costs of other Projects. For a description of the Commercial Paper program, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinated Obligations; Commercial Paper”. The remaining proceeds of the Offered Bonds will be applied as described in “PURPOSES OF THE OFFERED BONDS – Application of the Offered Bond Proceeds.”

The Offered Bonds will be payable and secured under the Resolution on a parity with all other Bonds heretofore and hereafter issued pursuant to the Act and the Resolution, except as described herein with respect to the Debt Service Reserve Fund or otherwise as permitted by the Resolution. Currently, the aggregate principal amount of Bonds which may be issued under the Resolution is not limited by law or the Resolution. As of November 21, 2013, \$1,317,250,000 aggregate principal amount of Bonds will be outstanding, including the Offered Bonds. In addition, as of November 21, 2013, the Authority will have \$224,429,000 aggregate principal amount of Commercial Paper outstanding of which approximately \$135,755,922 will be retired by the Offered Bonds. See “THE AUTHORITY – Outstanding Indebtedness of the Authority”.

The Bonds, including the Offered Bonds, constitute special obligations of the Authority. The principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds shall be payable solely from and secured by the Annual Financing Charges, Legislative Appropriations and other moneys and securities held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution.

The Authority and each Board have entered into a separate Second Program Financing Agreement dated as of November 1, 1997, as amended (each, a “Financing Agreement”). The Financing Agreements obligate the Authority to use its best efforts to finance Projects for the respective Boards under certain terms and conditions. Annual Financing Charges

payable with respect to a Project (including debt service on the portion of the Bonds issued for that Project) are required under the Financing Agreements to be paid by the Boards, as and when the same become due, only from Fees and Charges collected by or on behalf of the respective Institution and, if necessary, from Legislative Appropriations for the operation and maintenance of the respective Institution as described herein. See “SECURITY FOR THE PAYMENT OF THE BONDS – Annual Financing Charges; Fees and Charges” and “– Legislative Appropriations”. For a discussion of recent changes to the definition of the term “Institution”, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Recent Amendments to the Act, the Resolution and the Financing Agreements” and Appendix C – “GLOSSARY OF CERTAIN TERMS”.

Under each Financing Agreement, the relevant Board covenants and agrees to establish and collect Fees and Charges at each Institution at a level sufficient to produce in each Fiscal Year no less than two times the amount required for the payment of the aggregate (without duplication) of (i) all Annual Financing Charges in such Fiscal Year payable with respect to all Projects for the Institution, plus (ii) the aggregate of all prior charges, pledges, liens and claims on or payable from said Fees and Charges in such Fiscal Year with respect to the Institution.

The Resolution establishes a Debt Service Reserve Fund, which has been maintained at the level of the Debt Service Reserve Requirement, as provided in the Resolution, for all Bonds issued prior to 2012 currently outstanding under the Resolution. **However, as permitted by the Resolution and as further described herein, the Authority has established a separate account in the Debt Service Reserve Fund solely for the Offered Bonds and elected not to fund such account. While the Authority is authorized to fund such account at a later date, it has no present intent to do so. Unlike the currently outstanding Bonds issued prior to 2012, the Offered Bonds are not secured by any other account or amounts on deposit in the Debt Service Reserve Fund; are not payable from any other account or amounts on deposit in the Debt Service Reserve Fund; and will not be included in the calculation of the Debt Service Reserve Requirement either at initial issuance or at a later date.** See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Debt Service Reserve Fund”.

The Financing Agreements and the Resolution constitute the second and only presently available Authority loan program for the Boards.

For a summary of the provisions of the Financing Agreements see “Appendix D – SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENTS”. For a discussion regarding the security and sources of payment for the Offered Bonds, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS”.

## **PURPOSES OF THE OFFERED BONDS**

### **Application of the Offered Bond Proceeds**

The Offered Bonds are being issued for the purposes of (i) retiring at maturity the principal of Commercial Paper heretofore issued for certain Projects identified below, (ii) financing a portion of the costs of certain Projects identified below, and (iii) funding costs of issuance of the Offered Bonds. The Commercial Paper to be retired with proceeds of the Offered Bonds matures on various dates and in various principal amounts through December 6, 2013. The interest on such Commercial Paper will be paid at maturity with other available funds.

The following table shows the Projects to be financed and refinanced with the proceeds of the Offered Bonds and the principal amount of the Offered Bonds for each Project:

<u>Institution</u>	<u>Project</u>	<u>Amount</u>
University of Tennessee, Knoxville	Residence Hall	\$ 39,531,273
University of Tennessee, Knoxville	Neyland Stadium Improvements	20,415,576
University of Tennessee, Chattanooga	Stagmaier Hall Renovations	2,346,180
East Tennessee State University	Married Student Housing	2,972,547
East Tennessee State University	Housing Renovations	2,596,502
East Tennessee State University	Recreation Facility Expansion	4,896,851
East Tennessee State University	Parking Garage	17,092,783
Middle Tennessee State University	Parking Garage	21,712,454
University of Memphis	Carney-Johnston Dormitory Renovation	2,462,200
Austin Peay State University	New Student Housing	29,328,654
Tennessee Technological University	Tech Village Student Housing	5,774,979
		<b><u>\$ 149,130,000</u></b>

## Sources and Uses of Funds for the Offered Bonds

The sources and application of funds in connection with the issuance of the Offered Bonds are as follows:

	<b>2013 Series A Bonds</b>
<b>Sources of Funds:</b>	
Par Amount of Bonds	\$ 149,130,000
Original Issue Premium	14,036,286
<b>Total</b>	<b><u><u>\$163,166,286</u></u></b>
 <b>Uses of Funds:</b>	
Project Construction Accounts (approx.)	\$ 24,827,496
Capitalized Interest	1,829,304
Retirement of Commercial Paper (approx.)	135,755,922
Underwriters' Discount	317,601
Costs of Issuance *	435,963
<b>Total</b>	<b><u><u>\$163,166,286</u></u></b>

\* Includes contingency amount

## DESCRIPTION OF THE OFFERED BONDS

### General

The Offered Bonds will be dated the date of their delivery and will mature at the times and in the principal amounts as set forth on the inside cover page hereof. Interest on the Offered Bonds will be payable semi-annually on May 1 and November 1, commencing May 1, 2014. The Offered Bonds will be offered in authorized denominations of \$5,000 or integral multiples thereof.

Upon initial issuance, the Offered Bonds will be available only in book-entry form. The Depository Trust Company, New York, New York ("DTC") will act as initial securities depository for the Offered Bonds and the ownership of one fully registered bond for each maturity of the Offered Bonds in the aggregate principal amount of that maturity will be registered in the name of Cede & Co., as nominee of DTC, and deposited with DTC. Beneficial owners of Offered Bonds will not receive physical delivery of bond certificates except under limited circumstances. See Appendix F - "BOOK-ENTRY ONLY SYSTEM" for a description of DTC and its book-entry only system.

### Fiduciaries

Regions Bank, Nashville, Tennessee, is the Trustee under the Resolution and the Paying Agent and Registrar for the Offered Bonds.

### Redemption

*Optional Redemption* The Offered Bonds maturing on or prior to November 1, 2022, are not subject to redemption prior to maturity. The Offered Bonds maturing on or after November 1, 2023 are subject to redemption prior to their stated maturities from any available moneys, at any time on and after November 1, 2022 as a whole, or in part from time to time in any order of maturity determined by the Authority, at a Redemption Price equal to the principal amount of such Offered Bonds or portions thereof to be redeemed, together with the interest accrued on such principal amount to the date fixed for redemption.

*Mandatory Sinking Fund Redemption.* The Offered Bonds maturing on November 1, 2038 and November 1, 2043, respectively, are Term Bonds subject to redemption in part on November 1 in each of the years and in the respective principal amounts set forth below at a Redemption Price equal to the principal amount or portion thereof to be redeemed, together with the interest accrued thereon to the date fixed for redemption, from Sinking Fund Installments which are required to be accumulated in the Debt Service Fund in amounts sufficient to redeem on November 1 of each year shown below the principal amount of such Offered Bonds specified for such year:

<u>November 1, 2038 Maturity</u>		<u>November 1, 2043 Maturity</u>	
<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2034	\$4,520,000	2039	\$5,805,000
2035	4,755,000	2040	6,105,000
2036	4,995,000	2041	6,415,000
2037	5,255,000	2042	6,745,000
2038*	5,520,000	2043*	7,090,000

\* Final Maturity

Satisfaction of any Sinking Fund Installment for any Term Bonds also may be made in whole or in part by purchase or redemption of such Term Bonds at least 45 days prior to the due date of such Sinking Fund Installment.

*Selection of Offered Bonds to be Redeemed.* If less than all of the Offered Bonds of a maturity are to be redeemed, the particular Offered Bonds or portions thereof of such maturity to be redeemed shall be selected by the Registrar in any manner which it deems fair and appropriate. For so long as a book-entry only system is in effect with respect to the Offered Bonds and DTC or a successor securities repository is the sole registered owner of such Offered Bonds, in the event of a redemption of less than all of the Offered Bonds of a maturity, the particular ownership interests of the Offered Bonds of such maturity to be redeemed shall be selected by DTC and Direct DTC Participants and Indirect DTC Participants, or by any such successor securities depository or any other intermediary, in accordance with their respective operating rules and procedures. In the event of a partial redemption, DTC's rules and procedures currently provide for the redemption to be processed by random lottery. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, or any other intermediary, to make such selection, or to make or fail to make any such selection in any particular manner, will not affect the sufficiency or the validity of the redemption of Offered Bonds. See Appendix F- "BOOK-ENTRY ONLY SYSTEM".

*Notice of Redemption.* Notice of redemption is to be mailed, at least 20 days but not more than 30 days prior to the redemption date, to the Owner of each Offered Bond to be redeemed at the address that appears on the registration books, but failure to receive any such notice shall not affect the validity of the redemption proceedings. Any notice of redemption may provide that such redemption is conditional on the availability of sufficient moneys to pay the Redemption Price, plus interest accrued and unpaid to the redemption date.

For so long as a book-entry only system is in effect with respect to the Offered Bonds, the Registrar will give notice of redemption to DTC or its nominee or its successor. See Appendix F- "BOOK-ENTRY ONLY SYSTEM". Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, or any other intermediary, to notify a beneficial owner of an Offered Bond of any redemption will not affect the sufficiency or the validity of the redemption of such Offered Bond. Neither the Authority, nor the Trustee or Registrar, can give any assurance that DTC or its successor, the Direct DTC Participants or the Indirect DTC Participants, or any other intermediary, will distribute such redemption notices to the beneficial owners of the Offered Bonds, or that they will do so on a timely basis.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

The Bonds, including the Offered Bonds, constitute special obligations of the Authority. The principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds shall be payable solely from the Annual Financing Charges, Legislative Appropriations and other moneys and securities held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution. The Annual Financing Charges and Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, and all moneys and Investment Obligations credited to the Funds and Accounts established by the Resolution, are pledged for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds in accordance with the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution. All covenants and agreements set forth in the

Resolution to be performed on behalf of the Authority shall be for the equal benefit, protection and security of the Owners of all of the Bonds, except as expressly provided in or permitted by the Resolution. **As permitted by the Resolution, the Offered Bonds will not be secured by or payable from the Debt Service Reserve Fund maintained for currently outstanding Bonds issued prior to 2012. The Authority has elected to establish a separate account in the Debt Service Reserve Fund solely for the Offered Bonds, with no current funding requirement. Accordingly, the Offered Bonds will not be secured by a funded debt service reserve. See “Debt Service Reserve Fund” below.**

The definition of "Institution" contained in the Act was amended by Chapter 174, Public Laws of 2013 and, the definitions of "Institution" contained in the Resolution and in the Financing Agreements with the Board of Regents and the Board of Trustees, respectively, relating to that definition, have been amended accordingly. These amendments apply to all of the Authority's currently outstanding Higher Educational Facilities Second Program Bonds as well as those to be issued (including the Offered Bonds). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Recent Amendments to the Act, the Resolution and the Financing Agreements", Appendix C - "GLOSSARY OF CERTAIN TERMS", Appendix D - "SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENTS - Amendment", and Appendix E - "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Supplemental Resolution; Amendments" (clause (8) of the first paragraph).

**THE OFFERED BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE SOURCES PROVIDED IN THE RESOLUTION AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, ANY POLITICAL SUBDIVISION OF THE STATE OR THE AUTHORITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON, THE OFFERED BONDS.**

**THE AUTHORITY HAS NO TAXING POWER.**

### **Financing Agreements**

The Authority and each Board have entered into a Financing Agreement. The Financing Agreements obligate the Authority to use its best efforts to finance Projects for the respective Boards under certain terms and conditions. The Financing Agreements also obligate the Boards to pay to the Authority Annual Financing Charges sufficient, among other things, to provide for the payment of debt service on the Bonds. Annual Financing Charges payable with respect to a Project are required to be paid by the Board only from Fees and Charges of the Institution. The Boards are required to establish and collect fees and charges at the Institution at a level sufficient to produce in each Fiscal Year not less than two times the amount required for the payment of, among other things, all Annual Financing Charges payable in such Fiscal Year with respect to all Projects for the Institution. The Annual Financing Charges required of the Institution also are payable, if necessary, from Legislative Appropriations for the operation and maintenance of the Institution. See “Legislative Appropriations” below.

For a discussion of the recent changes to the definition of the term “Institution”, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Recent Amendments to the Act, the Resolution and the Financing Agreements” below and Appendix C – “GLOSSARY OF CERTAIN TERMS”.

### **Annual Financing Charges; Fees and Charges**

The Financing Agreements require that as long as any Debt (including the Bonds) remains outstanding for any Project, Annual Financing Charges shall be established and revised by the Authority from time to time in such amounts, payable at such times, as shall at all times be sufficient to enable the Authority to (i) pay the principal of and premium, if any, and interest on such Debt as and when the same become due and payable, (ii) pay or replenish reserves therefor as and when required by the Resolution, and (iii) make any other payments required to be made by or on behalf of the Authority under or pursuant to the Resolution.

The Boards are required by the Financing Agreements to pay to the Authority all Annual Financing Charges in such amounts, at such times, in such manner and at such places as shall be specified in writing from time to time by the Authority. It is the current policy of the Authority that the Boards make payments to the Authority at least 5 days prior to their respective due dates. This policy may be changed by the Authority in a manner consistent with the immediately preceding sentence and paragraph. Under the Financing Agreements, the obligation of the Boards to pay Annual Financing Charges is absolute and unconditional, and Annual Financing Charges are required to be paid in full without set-off or counterclaim.

The Boards covenant and agree in the Financing Agreements to establish and collect Fees and Charges at each Institution at a level sufficient to produce in each Fiscal Year no less than two times the amount required for the payment of the aggregate (without duplication) of (i) all Annual Financing Charges in such Fiscal Year payable with respect to all Projects for the Institution, plus (ii) the aggregate of all prior charges, pledges, liens and claims on or payable from said Fees and Charges in such Fiscal Year with respect to the Institution.

Annual Financing Charges payable with respect to a Project (including debt service on the portion of the Bonds issued for that Project) are required under the Financing Agreements to be paid by the Boards, as and when the same become due, only from Fees and Charges of the Institution. "Fees and Charges" means all revenues, fees, rentals and other charges received by or on behalf of an Institution which are available to pay Annual Financing Charges. See "Appendix B – TSSBA SELECTED STATISTICAL INFORMATION" for a description of the Institutions for which Projects are being financed with the proceeds of the Offered Bonds and for detail regarding each Institution's historical statement of collection of Fees and Charges, as well as the debt service on Bonds attributable to such Institution.

For a discussion of recent changes to the definition of the term "Institution", see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Recent Amendments to the Act, the Resolution and the Financing Agreements" below and Appendix C – "GLOSSARY OF CERTAIN TERMS".

Each Institution's total Fees and Charges and Legislative Appropriations (see "Legislative Appropriations" below) may be used to pay costs of operating and maintaining such Institution as well as the Annual Financing Charges. Each Board may pledge, assign or otherwise use or encumber any Fees and Charges relating to an Institution to obligations of the Institution or of the Board in addition to the Bonds if the aggregate of the Fees and Charges collected by the Institution in the preceding Fiscal Year is no less than two times the amount required for the payment of the aggregate (without duplication) of (i) the maximum amount of the Annual Financing Charges payable and projected to be payable with respect to all Projects for the Institution in any succeeding Fiscal Year, plus (ii) the aggregate of all prior charges, pledges, liens and claims on or payable from said Fees and Charges with respect to the Institution in any succeeding Fiscal Year.

The Financing Agreements also require that, in addition to Annual Financing Charges, the Authority may establish and revise from time to time, and the Boards shall apply Fees and Charges from their respective Institutions to pay fees ("Administrative Fees") to compensate the Authority for costs relating to (i) the issuance and payment of Debt and (ii) the administration of the Financing Agreements and the Resolution.

### **Legislative Appropriations**

In accordance with the Act, the Financing Agreements provide that if any Annual Financing Charges or Administrative Fees shall not be paid by a Board when due and payable with respect to a Project, or if the Board shall notify the Authority of any inability to make such payment from Fees and Charges, then the Board shall deduct from the amounts appropriated by the General Assembly of the State of Tennessee for the operation and maintenance of the respective Institution and pay to the Authority such amount or amounts as may be required to make the Board current with respect to the unpaid Annual Financing Charges and Administrative Fees. The Boards also agree in the Financing Agreements that the Commissioner of Finance and Administration, or his successor, after notice from the Authority that the respective Board has failed to pay Annual Financing Charges or Administrative Fees due and payable with respect to a Project, shall, to the extent permitted by law, deduct from the amounts appropriated by the General Assembly of the State of Tennessee for the operation and maintenance of the respective Institution the amount or amounts as may be required to make the Board current with respect to the unpaid Annual Financing Charges and Administrative Fees. It has not been necessary, to date, to utilize this procedure.

For a discussion of recent changes to the definition of the term "Institution", see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Recent Amendments to the Act, the Resolution and the Financing Agreements" below and Appendix C – "GLOSSARY OF CERTAIN TERMS".

A significant source of funding for the State's public institutions of higher education has been and continues to be annual appropriations made by the General Assembly of the State. See "Statement of Fees/Charges, Legislative Appropriations and Debt Service for the Last Ten Years" in Appendix B and "TENNESSEE PUBLIC HIGHER EDUCATION." However, the General Assembly is under no obligation to continue to make appropriations for the operation and maintenance of any Institution or of the Institutions generally, or to do so in any particular amount. See, however, "Additional Bonds" and "Statutory Covenant" below. The State of Tennessee is not liable on the Bonds and the Bonds are not a debt of the State of Tennessee.

Under the State Constitution, public money may be expended only pursuant to an appropriation made by law. Such expenditures include, but are not limited to, funding any judgment in the Tennessee Claims Commission as discussed below under "- Certain State Law Bondowner Remedies". The General Assembly in 2001 confirmed that the earnings, revenues, and assets of the Authority are continuously appropriated for expenditures authorized by or pursuant to the Act, which includes debt service on Second Program Bonds and Commercial Paper. That legislation also confirmed that the earnings, revenues or other assets of any public higher education entity whose contracts or agreements support the payment of the Authority's debt service are continuously appropriated for expenditures in accordance with or pursuant to such contracts or agreements which include the Financing Agreements. The Authority can provide no assurance as to the continuation of these continuing appropriations.

The Governor has asked all agencies, including higher education, to develop a 5% budget reduction of their State appropriations as a contingency plan in anticipation of reductions in the 2015 budget. It is not known at what level, or if, reductions will be necessary.

**Statutory Covenant**

In accordance with the provisions of the Act, the Authority, on behalf of the State, in the Resolution pledges to and agrees with the Owners of the Bonds that the State will not limit or alter the rights vested by the Act in the Authority to fulfill the terms of any agreements made with Bond Owners, or in any way impair the rights and remedies of such Owners until the Bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Owners, are fully met and discharged.

**Flow of Funds**

All Annual Financing Charges and Legislative Appropriations held or collected by the Authority are required by the Resolution to be deposited to the General Fund established under the Resolution, which shall be held by the State Treasurer or, at the direction of the State Treasurer, a separate custodian. However, in lieu of such deposit, the Authority may direct and cause any Board to transmit directly to the Trustee any amount of Annual Financing Charges and Legislative Appropriations payable by such Board that is required to be transferred by the Authority to the Trustee in the amounts and by the times required for purposes of the Debt Service Fund or Debt Service Reserve Fund.

All moneys credited to the General Fund shall be applied by the Authority in the following manner and order:

*First*, the Authority shall transfer to the Debt Service Fund such sums as are required to be deposited therein under the Resolution after giving effect to any such direct deposit; and

*Second*, the Authority shall transfer to the Debt Service Reserve Fund such sums as are required to be deposited therein pursuant to the Resolution after giving effect to any such direct deposit; provided, however, that no transfer shall be required prior to the date required, notwithstanding that as a result, lower priority transfers (described in the following paragraph) may be made at any time prior to higher priority transfers that could be but are not required to be made at the same time.

Any moneys credited to the General Fund in any month and not applied in such month, or required or otherwise expected to be applied thereafter in such month or in the next succeeding month, may be used for any lawful purpose of the Authority including, but not limited to, the payment of the principal of and premium, if any, and interest on Subordinated Obligations, the establishment of reserves for such payment, the payment or reimbursement of Administrative Expenses of the Authority, or the purchase or redemption of Bonds or Subordinated Obligations.

The Debt Service Fund shall be held by the Trustee or at the option of the Authority, unless there shall exist an Event of Default, by the State Treasurer or, at the direction of the State Treasurer, a separate custodian; it is currently being held by the Trustee. Moneys credited to the Debt Service Fund shall be deposited in the following amounts and order of priority, except that deposits from excess Construction Fund moneys shall be applied as directed by the Authority:

*First*, at least one Business Day prior to each interest payment date, there shall be deposited in the Debt Service Fund an amount equal to, and which shall be applied to the payment of, the interest becoming due on the Outstanding Bonds on such interest payment date;

*Second*, at least one Business Day prior to each principal payment date, there shall be deposited in the Debt Service Fund an amount equal to, and which shall be applied to the payment of, the principal amount of Bonds (including the principal amount of any Put Bonds tendered for payment by the Authority and not purchased in lieu of redemption prior to the redemption date thereof) of the Outstanding Serial Bonds becoming due on such principal payment date; and

*Third*, at least one Business Day prior to each Sinking Fund Payment Date for the Term Bonds, there shall be deposited in the Debt Service Fund an amount equal to, and which shall be applied to the payment of, the Sinking Fund Installments becoming due upon the redemption of such Term Bonds on such Sinking Fund Payment Date.

**Debt Service Reserve Fund**

*General*

The Resolution establishes a Debt Service Reserve Fund for the payment of all Series of Bonds, with a separate Debt Service Reserve Account therein for each Project financed, as described below. The Resolution also permits the Authority to establish a separate account in the Debt Service Reserve Fund to be applied solely to the payment of a particular Series of Bonds and to establish the requirements for that separate account; however, there is no requirement that such separate account in the Debt Service Reserve Fund be funded. Such separate account, if funded, would secure only the Series of Bonds for which it was created and the related Series of Bonds would not have access to any other accounts in the Debt Service Reserve Fund. The Debt

Service Reserve Fund shall be held by the Trustee or, at the option of the Authority, unless there shall exist an Event of Default, by the State Treasurer or, at the direction of the State Treasurer, a separate custodian. It is currently being held by the Trustee.

*No Debt Service Reserve For the Offered Bonds and Certain Other Bonds*

**The Authority has elected to establish a separate account in the Debt Service Reserve Fund solely for the Offered Bonds, with no current funding requirement. Accordingly, the Offered Bonds do not have a funded debt service reserve account.** Specifically, the Offered Bonds shall have no claim or lien on, nor shall any Offered Bonds be payable from, any accounts in the Debt Service Reserve Fund, except from the separate account established for the Offered Bonds to the extent that such account may be funded in the future, although the Authority is under no obligation to fund the account and has no present intent to provide such funding. The Authority's Higher Educational Facilities Second Program Bonds, 2012 Series A, 2012 Series B (Federally Taxable) and 2012 Refunding Series C (the "2012 Bonds"), similarly have no funded debt service reserve account and requirement and the provisions of the preceding sentence apply to them as well. In addition, the Offered Bonds and the 2012 Bonds are excluded from the calculation of the Debt Service Reserve Requirement for all Series of Bonds that are secured by accounts in the Debt Service Reserve Fund as described in "*Debt Service Reserve Fund For Bonds Issued Prior to 2012*" below. As permitted by the Resolution, the Authority reserves the right to issue additional Series of Bonds (i) secured solely by their respective related separate accounts in the Debt Service Reserve Fund, and further to elect whether to fund such separate account, or (ii) secured by accounts in the Debt Service Reserve Fund as described below in "*Debt Service Reserve Fund For Bonds Issued Prior to 2012*."

*Debt Service Reserve Fund For Bonds Issued Prior to 2012*

The remainder of this section describes the Debt Service Reserve Fund as it applies to all currently outstanding Bonds issued prior to 2012 and to any additional Series of Bonds for which the Authority elects not to establish a separate account in the Debt Service Fund that is applicable only to such Series. ***The following description does not apply to the Offered Bonds.***

Within the Debt Service Reserve Fund there shall be established a separate Debt Service Reserve Account for each of the Projects. At the time of or prior to the delivery of each Series of Bonds, the Authority shall pay into each Debt Service Reserve Account from the proceeds of the sale of Bonds issued with respect to the Project to which such Debt Service Reserve Account relates, or from any other available source, a sum of money equal to the Debt Service Reserve Requirement with respect to the Bonds issued for such Project. In the event that moneys on deposit in a Debt Service Reserve Account are transferred to the Debt Service Fund as described below, then, within five months of the date of such transfer, the Authority shall deposit or cause to be deposited into such Debt Service Reserve Account moneys sufficient to cause the amount of moneys and value of Investment Obligations then on deposit in such Debt Service Reserve Account to be equal to the Debt Service Reserve Requirement applicable thereto.

"Debt Service Reserve Requirement" means, with respect to each Series of Bonds, as of any date of calculation, (i) an amount equal to the aggregate of the greatest amount of Debt Service on all Outstanding Bonds of such Series issued for each Project (calculated separately for each Project and then aggregated) payable on any interest or Principal Installment date thereafter (except that for the first such date after the date of issuance of such Bonds, interest to accrue for greater than 6 months but less than 12 months shall not be taken into account), or (ii) such greater amount, which subsequently may be reduced to an amount not less than the amount required by clause (i) above, as may be determined from time to time by the Authority by Supplemental Resolution; provided, however, that as a result of the issuance of any Series of Bonds the interest on which is generally excluded from gross income for Federal income tax purposes, the Debt Service Reserve Requirement with respect to such Series shall at no time exceed the lesser of (i) the amount that may be funded from the proceeds of such Bonds or (ii) the amount that constitutes a reasonably required reserve with respect to such Bonds. Each determination by the Authority of the Debt Service Reserve Requirement shall be conclusive. See the definition of this term in Appendix C for definitions of other defined terms used above. The Offered Bonds and the 2012 Bonds are excluded from the calculation of the Debt Service Reserve Requirement.

Moneys credited to a Debt Service Reserve Account shall be used, except as hereinafter described, solely for the payment of the principal and Sinking Fund Installments, if any, of and interest on the Bonds issued with respect to the Project to which such Account relates as the same become due and payable and with respect to which there are insufficient moneys available in the Debt Service Fund. If there are insufficient moneys for such purpose in the Debt Service Reserve Account with respect to the Project to which such Account relates, then moneys and Investment Obligations on deposit in or credited to the Debt Service Reserve Accounts which relate to other Projects of the Institution for which such Project was undertaken shall be applied on a pro rata basis (based on Debt Service Reserve Requirements) to cure such deficiency. If after making such application a deficiency still exists in the Debt Service Reserve Account with respect to a particular Project, then moneys and Investment Obligations on deposit in or credited to the Debt Service Reserve Accounts for all Projects undertaken for all Institutions under the supervision of the other Board may be applied on a pro rata basis (based on Debt Service Reserve Requirements) to cure such deficiency. Moneys applied pursuant to the previous two sentences shall be restored to the respective Accounts from which they were obtained in the inverse order from which they were

withdrawn and such Accounts are to be restored to the Debt Service Reserve Requirement therefor before moneys are credited to the Debt Service Reserve Account related to the Project for which there were insufficient moneys available in the Debt Service Fund.

Any amounts in a Debt Service Reserve Account at the end of any Bond Year in excess of the Debt Service Reserve Requirement with respect to the Bonds issued for a Project to which such Account relates shall be withdrawn from such Account and transferred to the Debt Service Fund and applied to the payment of the principal and Sinking Fund Installments of and interest on the Bonds relating to such Project, unless otherwise directed by the Authority.

If the Authority determines at any time that the moneys and value of Investment Obligations credited to any Debt Service Reserve Account are in excess of the Debt Service Reserve Requirement for the Bonds issued for the related Project, the Authority may transfer or, if applicable, direct the Trustee to transfer such excess to the Debt Service Fund and apply such excess to the payment of the principal and Sinking Fund Installments of and interest on Bonds relating to such Project.

In the event of the refunding of any Bonds, the Authority may withdraw from the Debt Service Reserve Fund all or any portion of the amounts accumulated therein with respect to the Bonds being refunded and deposit such amounts with a Paying Agent to be held for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on the Bonds being refunded or apply such amounts to pay the costs of issuance of the Refunding Bonds, or, if not so applied, such amounts shall be applied in the same manner as provided for excess amounts in the Debt Service Reserve Fund; provided, however, that such withdrawal shall not be made unless (i) upon such refunding, the Bonds being refunded shall be deemed to have been paid within the meaning and with the effect provided in the Resolution, (ii) the amount and value of Investment Obligations remaining in such Debt Service Reserve Account shall not be less than the Debt Service Reserve Requirement for the Bonds issued for the related Project, and (iii) at the time of such withdrawal, there shall exist no deficiency in the Debt Service Fund.

In lieu of cash or Investment Obligations, the Authority may satisfy the Debt Service Reserve Requirement in part or in whole by maintaining a Reserve Fund Credit Facility from a provider whose long term obligations or claims paying ability are rated, at the time of acceptance by the Authority, by each rating agency then rating outstanding Bonds, no lower than the same rating category (taking into account refinements and gradations) as the Bonds are then rated by such rating agency. If a disbursement is made pursuant to a Reserve Fund Credit Facility, the Authority shall within 12 months either (i) reinstate the maximum limits of such Reserve Fund Credit Facility or (ii) deposit into the Debt Service Reserve Fund funds in the amount of the disbursement made under such Reserve Fund Credit Facility, or a combination of such alternatives, so that the amount of moneys and value of Investment Obligations and/or Reserve Fund Credit Facility in each Debt Service Reserve Account equals the Debt Service Reserve Requirement for the Bonds issued for the related Project. If a Debt Service Reserve Account is funded with any combination of moneys, Investment Obligations and/or one or more Reserve Fund Credit Facilities, then any withdrawal to satisfy a deficiency in the Debt Service Fund shall be made from such (i) moneys or Investment Obligations and (ii) Reserve Fund Credit Facilities (and among such Reserve Fund Credit Facilities) on a pro rata basis, except or unless otherwise required or permitted by the provider or providers of such Reserve Fund Credit Facilities.

The Debt Service Reserve Fund Requirements with respect to the Bonds issued prior to the Higher Educational Facilities Second Program Bonds, 2008 Series B, were satisfied by the deposit of Reserve Fund Credit Facilities to the Debt Service Reserve Fund. As of October 31, 2013, there are currently on deposit in the Debt Service Reserve Fund cash funded reserves in the aggregate amount of \$41,079,888 and Reserve Fund Credit Facilities issued by MBIA Insurance Corporation in the aggregate amount of \$17,103,591 and by Financial Security Assurance Inc., now Assured Guaranty Municipal Corp., in the aggregate amount of \$30,113,092. On or around February 18, 2009, all obligations of MBIA Insurance Corporation with regard to bonds issued by the Authority were transferred to MBIA Insurance Corp. of Illinois (which itself was subsequently renamed National Public Finance Guarantee Corporation). These Reserve Fund Credit Facilities terminate on the final maturity or earlier retirement date of the related Bonds.

#### **Additional Bonds**

Additional Bonds may be issued under the Resolution from time to time in Series, including refunding Outstanding Bonds, but only upon, among other things:

1. Receipt by the Trustee and the Registrar of a Counsel's Opinion to the effect that (i) the Authority has the right and power under the Act as amended to the date of such Opinion to adopt the Resolution (with such approvals as may be required by the Act as so amended), the Resolution has been duly and lawfully adopted by the Authority (and such approvals given), is in full force and effect and is valid and binding upon the Authority; (ii) the Resolution creates the valid pledge which it purports to create of the Annual Financing Charges, Legislative Appropriations, and all rights under the Agreements or otherwise to receive the same, moneys and securities held or set aside under the Resolution, subject to the application thereof to the purposes and on the

conditions permitted by the Resolution; and (iii) the Bonds of such Series are valid and binding obligations of the Authority as provided in the Resolution, entitled to the benefits of the Resolution and of the Act as amended to the date of such Counsel's Opinion, and such Bonds have been duly and validly authorized and issued in accordance with the law, including the Act as amended to the date of such Counsel's Opinion, and in accordance with the Resolution.

2. Receipt by the Trustee and the Registrar of a certificate of the Authority stating that:
  - (a) the principal amount of the Bonds then to be issued, together with the principal amount of the Bonds theretofore issued, will not exceed in aggregate principal amount any limitation thereon imposed by law;
  - (b) the Authority is not in default in the performance of any other covenants, conditions, agreements or provisions contained in the Resolution, including but not limited to that there is no deficiency in the amounts required by the Resolution to be paid into the Debt Service Fund except, in the case of Refunding Bonds, if, upon the application of the proceeds of such Bonds or upon the issuance and delivery of such Bonds, all such defaults shall be cured;
  - (c) the amount on deposit in the Debt Service Reserve Fund, upon the issuance and delivery of any such Series of Bonds, shall not be less than the Debt Service Reserve Requirement;
  - (d) the Financing Agreements obligate the Boards to pay, in the aggregate, Annual Financing Charges with respect to Projects for which Bonds have been issued and the additional Bonds being issued sufficient in amount, together with capitalized interest, to pay as the same shall become due the principal, Sinking Fund Installments, if any, and Redemption Price, if applicable, of and interest on the Bonds then Outstanding and the additional Bonds being issued; and
  - (e) the provisions of the Act authorizing the Boards to deduct from amounts appropriated by the General Assembly of the State for the operation and maintenance of the Institution for which each Project is undertaken and pay to the Authority such amount or amounts as may be required to make up any deficiencies in the Fees and Charges and other moneys available for the purpose of paying Annual Financing Charges due the Authority have not been repealed or amended to the detriment of Bondowners.

Additional Bonds are required to be authorized by Supplemental Resolution, which may delegate to authorized officers the power to determine, supplement, modify or amend specified details of such Bonds by means of a Series Certificate, which shall be filed with the Trustee and deemed for all purposes of the Resolution to have been adopted by the Authority and to be a part of the Supplemental Resolution to which it relates.

Additional Bonds may take the form of and have features incident to, among other things, Capital Appreciation Bonds, Variable Interest Rate Bonds, or Put Bonds, and in connection with the issuance of any Bonds the Authority may enter into Credit Facilities and Qualified Swaps. For a description of certain related provisions that may be included in Supplemental Resolutions, see Appendix E "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Certain Provisions Relating to Credit Facilities, Qualified Swaps and Other Arrangements".

### **Qualified Swaps**

In connection with the issuance of a Series of Bonds or at any time thereafter so long as a Series of Bonds remains Outstanding, the Authority may, to the extent from time to time permitted pursuant to law, enter into Qualified Swaps relating to such Bonds. The Authority's obligation to make any payment under any Qualified Swap may be secured by a pledge of, and a lien on, the items pledged in the Resolution for the security of the Bonds on a parity with the lien created by the Resolution or be payable from or secured by amounts on deposit in the Debt Service Fund or Debt Service Reserve Fund, or shall constitute Subordinated Obligations payable from the General Fund, as determined by the Authority; provided, however, that any optional or mandatory termination payments shall constitute Subordinated Obligations. If a Qualified Swap is payable from and/or secured by the Debt Service Fund and Debt Service Reserve Fund, the Authority may provide by Supplemental Resolution for a recalculation of the Debt Service Reserve Requirement for any Bonds to take into account the Authority's debt service payment obligations on such Bonds as affected by such Qualified Swap. The Authority has not entered into any Qualified Swaps and has no current plans to do so.

### **Subordinated Obligations; Commercial Paper**

The Authority also reserves in the Resolution the right to issue or enter into Subordinated Obligations to be paid from amounts on deposit in the General Fund so long as any such Subordinated Obligations are not entitled, except as otherwise provided therefor by the express terms of the Resolution, to a charge or lien or right prior or equal to the charge or lien created by, or prior or equal to the rights of the Owners of the Bonds provided by, the Act and the Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS Flow of Funds".

The Authority has authorized tax-exempt and taxable Commercial Paper to be issued from time to time under the Commercial Paper Resolution, in an aggregate amount outstanding at any time not to exceed \$300,000,000 to fund Project Costs, pay the principal of outstanding Commercial Paper and repay amounts advanced and loans made pursuant to any credit or liquidity facility provided with respect to the Commercial Paper (each a “Liquidity Facility”) but not fees and expenses payable thereunder. Generally, Commercial Paper is intended to be issued on an interim basis in anticipation of the issuance of Bonds, although in some cases the Authority may retire Commercial Paper from other available sources.

All Commercial Paper constitutes Subordinated Obligations under the Resolution. The principal of the Commercial Paper, to the extent not paid from proceeds of other Commercial Paper or amounts drawn on a Liquidity Facility, and interest on the Commercial Paper, to the extent not paid from proceeds of draws on the Liquidity Facility, is payable from amounts to be made available therefor by the Authority. The Authority has entered into an agreement with State Street Bank and Trust Company to provide the Liquidity Facility. Such Liquidity Facility permits, and the Commercial Paper Resolution requires, drawings thereunder (subject to conditions precedent) to pay the principal of and interest on Commercial Paper to the extent not paid from, in the case of principal, proceeds of other Commercial Paper or, in the case of both principal and interest, other funds made available by the Authority for the payment thereof. With the consent of the Authority, additional banks may be added as liquidity providers under the Liquidity Facility, in which case the obligations of all banks thereunder will be several and not joint. The Liquidity Facility will expire at the close of business on March 30, 2014, unless extended or terminated prior to such date in accordance with its terms.

On November 21, 2013, Commercial Paper will be outstanding in the aggregate principal amount of \$224,429,000, which includes \$4,189,869 not yet allocated to Institutions. Approximately \$135,755,922 of the Commercial Paper will be retired by Offered Bonds.

### **Certain State Law Bondowner Remedies**

The State has waived the Authority’s immunity from suit and extended its consent to be sued for actions on the Bonds, but has not done so for other contractual obligations of either the Authority or the Boards, including the Financing Agreements. Current State law provides that monetary claims against the State (including, for this purpose, the Authority and the Boards) for breach of its contractual obligations and certain other causes where sovereign immunity has been waived may be heard and determined exclusively in the forum of the Tennessee Claims Commission, an administrative tribunal, where the Authority or the Boards may be liable only for actual damages and certain costs.

Under the State Constitution, public moneys may be expended only pursuant to an appropriation made by law. Sovereign immunity or other legal principles may bar actions to compel the General Assembly to appropriate moneys or to compel the payment of appropriated moneys.

For a description of remedies available to Bondowners under the Resolution, see Appendix E – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Remedies.”

### **Termination of Existence**

The Governmental Entity Review Law provides for the termination of various governmental entities on specified dates, which in the case of the Authority, the Board of Regents and the Board of Trustees, is June 30, 2014. The law also provides that if the General Assembly does not extend the termination date of an entity, the existence of the entity will continue for an additional year without any diminution, reduction or limitation of its powers. However, the State is required to preserve the rights of the holders of any outstanding indebtedness of the entity at the time of termination and the obligations and rights of such entity shall accrue to the State.

On October 23, 2013, the Joint Government Operations Committee held its hearing for the Authority. The Committee recommended that the Authority’s existence be extended to June 30, 2022. The General Assembly will convene on Tuesday, January 14, 2014. When the performance audits have been completed for each of the Boards, a sunset hearing will be scheduled and a recommendation from the Joint Government Operations Committee on their continued existence will be made at that time.

### **Recent Amendments to the Act, the Resolution and the Financing Agreements**

Legislation was enacted by the General Assembly of the State at its 2013 session and signed into law by the Governor (Chapter 174, Public Laws of 2013) to amend the definition of “Institution” in the Act from “the University of Tennessee, including all of its branches and divisions wherever located, and each constituent institution of the state university and community college system described in § 49-8-101(a). Each constituent institution of the state university and community college system, whether or not it confers degrees, shall be deemed an institution of higher education for purposes of this part;” to “(i) the University of Tennessee system, including all of its branches and divisions wherever located, and the services, programs and activities provided therein, and the board of trustees of the University of Tennessee, in the aggregate, and (ii) the state university and community college system, including all of its constituent institutions,

wherever located (whether or not conferring degrees), and the services, programs and activities provided therein, and the Board of Regents of the state university and community college system, in the aggregate;”. This has the effect of the State University and Community College System being treated for purposes of the Act as a collective entity in the same way the University of Tennessee system previously was, and will continue to be, treated.

The definitions of “Institution” contained in the Resolution and in the Financing Agreement and other provisions of the Financing Agreement with the Board of Regents relating to that definition were amended accordingly, as permitted thereby, on May 9, 2013. See Appendix D – “SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENTS – Amendment” and Appendix E – SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Supplemental Resolution; Amendments” (clause (8) of the first paragraph).

The amendments described above apply to all of the Authority’s currently outstanding Higher Educational Facilities Second Program Bonds as well as those to be issued (including the Offered Bonds). One principal effect of the amendments is to allow the Board of Regents to satisfy its obligation to pay Annual Financing Charges to the Authority with respect to all Projects from the Fees and Charges imposed by all of its constituent institutions, in the aggregate, instead of on an institution-by-institution basis as was previously the case. Another is that the deductions and payments to the Authority from Legislative Appropriations for non-payment by the Board of Regents of Annual Financing Charges or Administrative Fees with respect to a Project could be made from appropriations made by the General Assembly of the State for the operation and maintenance of all of the constituent institutions of the State University and Community College System, as was previously, and will continue to be, the case with respect to the University of Tennessee system, and not just from the appropriations for the operation and maintenance of the particular institution for which such Project was undertaken or used. Similarly, amounts appropriated for certain other services, programs and activities of both the Board of Regents and the Board of Trustees, and for the two Boards themselves, may be deducted and paid to the Authority in the event of non-payment under the respective Financing Agreements. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Legislative Appropriations”. The amendments to the Financing Agreements also are expected to affect the eligibility of Projects for financing by the Authority as described in Appendix D – “SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENTS – Approval of Projects and Project Costs”.

Included in “Coverage of Annual Financing Charges and Administrative Fees for the Long-Term Debt Secured By Financing Agreements – College and University Funds – For the Last Ten Years” in Appendix B is a calculation of coverage consistent with the amendments described above.

## **THE AUTHORITY**

The Authority, created in 1965 under the Act, is a corporate governmental agency and instrumentality of the State of Tennessee. In addition to its authority to issue bonds and notes to finance Projects, the Authority in 1980 was empowered by the General Assembly of the State of Tennessee to issue bonds or notes to provide funds for the making of student loans by the Tennessee Student Assistance Corporation. The principal amounts of such bonds or notes issued may not exceed \$5,000,000 and must be secured separate and apart from any bonds or notes of the Authority issued to provide funds to finance Projects. As of the date of this Official Statement, no bonds or notes have been issued for the making of student loans.

In 1999, the General Assembly empowered the Authority to issue Qualified Zone Academy Bonds (“QZABs”). QZABs are issued under the provisions of the Authority’s Qualified Zone Academy Bonds First Program Resolution, are not supported by either the First Program or Second Program Financing Agreements, and are not secured by either the First Program or Second Program General Bond Resolution. QZABs are part of a Federal government program in which, generally, a Federal income tax credit is given to investors in lieu of the payment of interest on the bonds.

Under the QZAB program, loans with local governments are direct general obligations of the local government for the payment of which as to principal, the full faith and credit of the local government are pledged. As additional security for the loans, there is also pledged the borrower’s unobligated portions of State taxes that are by statute to be shared with the local governments (“Unobligated State-Shared Taxes”). Each borrower’s annual loan repayments are deposited into sinking fund accounts invested with the State Treasurer and, together with interest thereon, are held to be applied to the payment of principal of the QZABs at maturity or upon redemption. As of October 31, 2013, the total par of QZABs outstanding was \$43,920,000 and the fund balance of pledged sinking fund accounts totaled \$24,958,453.

The Authority is also authorized to issue qualified school construction bonds (“QSCBs”), as defined in Section 54F of the Internal Revenue Code of 1986, as amended (the “Code”). QSCBs are issued under the provisions of the Authority’s Qualified School Construction Bonds General Bond Resolution, which was adopted by the Authority on November 5, 2009, as supplemented (the “QSCB Resolution”), are not supported by either the First Program or Second Program Financing

Agreements, and are not secured by either the First Program or Second Program General Bond Resolution. The proceeds of QSCBs are lent to cities, counties and metropolitan governments in the State for construction, renovation and equipment of public school facilities. Under the QSCB program, each borrower executes a loan agreement pursuant to which it agrees to pay the principal of and interest on its loan and pledges to such payments its full faith and credit and unlimited taxing power and its Unobligated State-Shared Taxes in the event of non-payment by such borrower. For certain of the QSCBs, a Federal income tax credit is given to bondholders in lieu of the payment of interest on bonds, and in certain other QSCBs an election is made by the Authority to receive direct interest subsidy payments from the United States Treasury, which, if not needed to cure defaults under loan agreements with the borrowers, are transferred to them. As of October 31, 2013, the total par amount of QSCBs outstanding was \$389,440,000, and the fund balance of pledged sinking fund accounts totaled \$64,175,424.

The Authority is also required to approve any borrowings consummated by the Board of Trustees, by the Board of Regents or by any of the Institutions, whether such borrowings are made through the Authority or independently.

### Membership of the Authority

The powers of the Authority, as defined in the Act, are vested in and exercised by its members who consist of the Governor, the Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of Finance and Administration, the Chancellor of the Board of Regents and the President of The University of Tennessee. The Governor serves as Chairman of the Authority, and the Comptroller of the Treasury serves as the Secretary.

The Comptroller of the Treasury, the Secretary of State and the State Treasurer are the Constitutional Officers of the State and are elected from time to time by the General Assembly. The Commissioner of Finance and Administration serves at the pleasure of the Governor. The Chancellor of the Board of Regents and the President of The University of Tennessee serve at the pleasure of their respective Boards.

### Outstanding Indebtedness of the Authority

As of November 21, 2013, the Authority has issued, and there currently is outstanding under the Resolution, Bonds (including the Offered Bonds) as follows:

<u>Higher Educational Facilities Second Program Bonds</u>	<u>Principal Outstanding (Unaudited)</u>
2004 Series C (Federally Taxable)	\$ 1,375,000
2005 Refunding Series A	74,410,000
2005 Refunding Series B (Federally Taxable)	4,610,000
2006 Series A	6,780,000
2007 Series A	26,465,000
2007 Series B (Federally Taxable)	10,335,000
2007 Refunding Series C	83,730,000
2008 Series A	102,205,000
2008 Series B	144,445,000
2009 Series A	78,860,000
2010 Series A	191,415,000
2010 Series B (Federally Taxable)	16,810,000
2012 Series A	206,055,000
2012 Series B (Federally Taxable)	102,650,000
2012 Refunding Series C	117,975,000
2013 Series A	149,130,000
Total Outstanding Second Program Bonds	<u><u>\$ 1,317,250,000</u></u>

The Authority also has issued and there is outstanding Commercial Paper as described under “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinated Obligations; Commercial Paper”.

The Authority continually monitors its debt structure and capital requirements, and depending on such requirements, financial market conditions and other factors, may issue additional bonds or notes and may refund (whether or not for savings) any of its outstanding bonds and notes. For additional financial information concerning the Authority, see Appendix A hereto.

## **TENNESSEE PUBLIC HIGHER EDUCATION**

### **General**

Public higher education in Tennessee is coordinated by the Tennessee Higher Education Commission (the “Commission”) and consists of two systems: The University of Tennessee campuses governed by the Board of Trustees; and the state universities, community colleges, technical institutes and state technology centers governed by the Tennessee Board of Regents.

The Commission consists of the three Constitutional Officers (Comptroller of the Treasury, Secretary of State, State Treasurer), nine lay members with six year terms appointed by the Governor, and two student members appointed for two year terms (one from The University of Tennessee system and one from the Board of Regents system; one voting each year). It develops a statewide Master Plan used in making policy recommendations concerning such matters as the need for existing degree programs, the development of new degree programs, and the review of tuition and fees. The Commission is charged with conducting annual reviews and licensing non-accredited, degree-offering postsecondary educational institutions; has the responsibility for studying the use of public funds appropriated for higher education; and recommends the appropriation of state funds for public higher education institutions.

The Boards are governing bodies for all public higher education in Tennessee. They have entered into Second Program Financing Agreements, by which the Authority provides funding for Projects. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS”.

The Board of Regents was created by the General Assembly in 1972 to govern the State University and Community College System, which currently includes 6 universities, 13 community colleges, and 27 state technology centers. Institutions governed by the Board of Regents are: Austin Peay State University, East Tennessee State University, Middle Tennessee State University, Tennessee State University, Tennessee Technological University, University of Memphis, Chattanooga State Technical Community College, Cleveland State Community College, Columbia State Community College, Dyersburg State Community College, Jackson State Community College, Motlow State Community College, Nashville State Community College, Northeast State Technical Community College, Pellissippi State Technical Community College, Roane State Community College, Southwest Tennessee Community College, Volunteer State Community College, and Walters State Community College, and together with the Board of Regents constitute a single “Institution” under the Act and the Tennessee Board of Regents’ Second Program Financing Agreement.

The University of Tennessee was founded in 1794 as Blount College. The University was designated in 1869 as the Federal land-grant institution in Tennessee. The Board of Trustees is the governing body of The University of Tennessee. The University has four campuses (at Knoxville, Martin, Memphis, and Chattanooga), with 33 colleges, schools, and divisions, and together with the Board of Trustees constitute a single “Institution” under the Act and the Board of Trustees’ Second Program Financing Agreement.

For a definition of the term “Institution” and recent changes to that definition, see Appendix C – “GLOSSARY OF CERTAIN TERMS” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Recent Amendments to the Act, the Resolution and the Financing Agreements” above.

For statements of outstanding debt by Institution, debt service coverage, fees and charges, appropriations and debt service by Institution, and certain other statistical information, see Appendix B hereto.

### **Capital Projects**

Capital projects that have been approved by the Authority (see “REVIEW AND APPROVAL PROCESS FOR FINANCING OF PROJECTS BY AUTHORITY” below) generally are funded initially by Commercial Paper until they are at least approximately 75% complete, after which they are refinanced with Bonds, and occasionally are financed directly with Bonds. As of November 21, 2013, the Authority had approved projects for the University of Tennessee system with a total cost of \$320,840,724, of which \$102,460,541 had been funded with Commercial Paper, and for the Tennessee Board of Regents system with a total cost of \$198,037,000, of which \$117,778,590 had been funded with Commercial Paper. The Governor’s budget for fiscal year 2013-2014 includes capital projects, as amended by the Appropriations Bill (Public Chapter 453), to be funded by the Authority in the amount of \$256,810,000, of which \$140,950,000 is for the University of Tennessee system and \$115,860,000 is for the Tennessee Board of Regents system.

**Outcomes-Based Funding**

Historically, Legislative appropriations for higher education have been based principally on enrollment with some incentives heavily focused on inputs. As part of the Complete College Tennessee Act of 2010, Tennessee developed an outcomes-based funding formula model that rewards institutions for the production of outcomes that further the educational attainment and productivity goals of the State’s Master Plan for the future development of public higher education that has been approved by the Commission. This model was effective beginning with fiscal year 2010-2011 and is being phased in over a three year period as discussed below under “Financial and Statistical Information.”

The outcomes were chosen to represent broad activities across institutions and are grouped into the categories of student progression, degree production, efficiency, and other important institutional functions. The outcomes are weighted according to institutional mission, reflecting an institution’s basic Carnegie Classification (a major national framework for describing how institutions are alike and different) as a core differentiation.

**Outcomes Included in the University Formula**

Students Accumulating 24hrs	Bachelor and Associate Degrees
Students Accumulating 48hrs	Masters and Ed Specialist Degrees
Students Accumulating 72hrs	Doctoral and Law Degrees
Research and Service Expenditures	Degrees per 100 Full Time Equivalent (“FTE”)
Transfers Out with at Least 12 Credit Hours	Six-Year Graduation Rate

**Outcomes Included in Community College Formula**

Students Accumulating 12 hrs	Dual Enrollment Students	Job Placements
Students Accumulating 24 hrs	Associates Granted	Transfers out with 12 Credits
Students Accumulating 36 hrs	Certificates Granted	Remedial and Developmental Success
Work Force Training	Awards per 100 FTE	

The outcomes-based model does not include student enrollment data at all. It instead utilizes a three-year average of outcome data. The outcome data is then weighted to reflect both the priority of that outcome at a particular institution and an institution’s Carnegie Classification. Institutions are also rewarded with a premium for the student progression and undergraduate degree production data attributable to low-income and/or adult students. Student progression measures the accumulation of credit hours, thereby incorporating course completions.

The outcomes-based model provides several distinct advantages to an enrollment-based methodology. It is productivity-based and provides more stability by spreading the financial incentives across more variables. Additionally, the institutional specific weights allow the State to be clear in its expectations, while not prescribing to institutions how to achieve higher levels of outcomes. Unlike performance funding, the outcomes based formula does not have annual targets or benchmarks. Therefore, it does not punish institutions for failure to achieve a predetermined annual goal. Furthermore, the links to the Master Plan are strengthened by utilizing the formula as a policy tool to encourage increased productivity.

The implementation of this change in methodology includes a hold harmless phase-out with accompanying non-recurring transition funds, and a formula phase-in which will fully phase-out for the fiscal year 2013-2014. The hold harmless phase-out is associated with the previous enrollment-based formula and was phased out 65% in the fiscal year 2011-2012 with an additional phase out of 20% and 15% in the fiscal years 2012-2013 and 2013-2014, respectively. The formula phase-in is based on the new outcomes-based formula and was phased in at 20% in the first year, 30% in the second year and 50% in the third year. The non-recurring transition funds are additional funding that will support the institutions in the phase-out of the hold harmless. Higher education received nonrecurring funds of \$15 million in fiscal year 2011-12 and \$10 million in fiscal year 2012-13 to support institutions in the phase-out of the hold harmless provision. A final installment of \$5 million in nonrecurring funds was appropriated in fiscal year 2013-2014 in order to complete the phase-out of the hold harmless provision. As of fiscal 2013-2014, the outcomes-based formula model has been completely phased in.

**Employee Retirement Benefits**

*Tennessee Consolidated Retirement System - General*

Employees of the University of Tennessee and the Board of Regents are authorized to participate in the Tennessee Consolidated Retirement System (“TCRS”), a defined benefit pension plan, pursuant to Tennessee Code Annotated Title 8, Chapter 35 except that employees exempt from the Federal Fair Labor Standards Act may waive membership in TCRS and elect to participate in the Optional Retirement System (ORP), a defined contribution plan. The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a

constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees.

The TCRS covers four large groups of public employees; state employees, higher education employees, teachers, and employees of certain local governments. As of June 30, 2012, there were 58,864 active members in TCRS in the state and higher education employee group. This total includes 16,693 employees of the University of Tennessee and the Board of Regents who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation. Employees in the state and higher education group are noncontributory.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate. By practice, an actuarial valuation is performed every other year. The last valuation was performed as of July 1, 2011. The report for the next valuation, which will be performed as of July 1, 2013, is expected to be available in early 2014.

*Tennessee Consolidated Retirement System - Actuarial*

At July 1, 2011, the date as of which the latest available actuarial valuation was performed, the unfunded actuarial liability for the state and higher education employee group when based on the actuarial value of assets was \$1.555 billion, resulting in a funded ratio of 88.30%. The unfunded actuarial liability would have been \$2.520 billion if based on the market value of assets with the funded ratio being 81.03%. The employer contribution rate, as determined by an actuarial valuation, includes funding for the normal cost, the accrued liability cost, and the TCRS administrative cost.

*Tennessee Consolidated Retirement System - Funding Policy*

Plan members are noncontributory. Higher education institutions are required to contribute at an actuarially determined rate. For the employees of Tennessee’s higher education institutions, the employer contribution rate, stated as a percentage of salary, for the period beginning July 1, 2012 and ending June 30, 2014, is 15.03% based on the actuarial valuation performed as of July 1, 2011. The next actuarial valuation, as of July 1, 2013, will establish the employer contribution rate beginning July 1, 2014 and ending on June 30, 2016. The contribution requirements of the higher education institutions are established and may be amended by the TCRS Board of Trustees. Employer contributions by institutions of higher education to TCRS for years ending June 30, 2012, 2011, 2010, and 2009 were as follows:

<b>Fiscal Year Ended 30-Jun</b>	<b>Employer Contribution Rate</b>	<b>UT Contributions</b>	<b>TBR Contributions</b>	<b>H.E. Employer Total Contributions to TCRS</b>
2012	14.91%	\$ 44,815,331	\$ 61,672,611	\$ 106,487,942
2011	14.91%	\$ 43,343,861	\$ 58,565,890	\$ 101,909,751
2010	13.02%	\$ 37,266,850	\$ 50,462,343	\$ 87,729,193
2009	13.02%	\$ 37,963,758	\$ 51,973,616	\$ 89,937,374

For each year above, contributions made by the University of Tennessee and the Tennessee Board of Regents institutions equal the annual required contributions (ARC).

It is anticipated that there will be upward pressure on the employer contribution rate in future actuarial valuations as deferred market losses that have been actuarially smoothed are recognized over the next ten years.

*New Pension Plan for Employees Hired after June 30, 2014*

As authorized by Public Chapter 259, Acts of 2013, employees first hired after June 30, 2014, will participate in a hybrid pension plan consisting of a defined benefit plan and a defined contribution plan. Employees will contribute at 5% of salary to the defined contribution plan. The total employer cost for the two plans will be limited to 9% of salary with 4% targeted to the defined benefit plan and 5% to the defined contribution plan. The defined benefit component of the hybrid plan has automatic cost controls and automatic controls over unfunded accrued liability. The automatic controls are based on the results of the actuarial valuation. Control features include future benefit accruals being adjusted, additional employee contributions being required, or contributions being shifted from the defined contribution plan to the defined benefit plan. The control features only apply to the new hybrid plan and do not apply to the legacy pension plan.

In June 2012, the Governmental Accounting Standards Board (“GASB”) issued new statements (nos. 67 and 68) relative to how a pension plan and the employer will account for pension expenses and obligations. Statement No. 67 will be effective for the fiscal year ended June 30, 2014 and Statement No. 68 will be effective for the fiscal year ended June 20, 2015. The State of Tennessee will comply with the new accounting requirements when they become effective.

*Defined Contribution Plan – Optional Retirement Plan (ORP)*

Higher education employees that are exempt from the Federal Fair Labor Standards Act may waive membership in TCRS and elect to participate in the ORP, a defined contribution plan. Employees do not contribute to the plan. Institutions of higher education make employer contributions to the ORP of 10% up to the social security wage base and 11% on salaries above the wage base. For new employees hired after July 1, 2014, the higher education employer will contribute 9% of salary and the employee will contribute 5% of salary to the ORP.

**Other Post-Employment Benefits**

GASB Statements Nos. 43 and 45 provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits (“OPEB”). The State received an actuarial study as of July 1, 2011, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including the Boards) that are required to participate in the State retirement and benefit plans. The study, which used a projected unit credit actuarial cost method, indicates that as of June 30, 2012, the total unfunded actuarial liability of the University of Tennessee was approximately \$242,451,000, and the annual required contribution is approximately \$24,806,000, while the unfunded actuarial liability of the Tennessee Board of Regents is approximately \$206,457,000, and the annual required contribution is approximately \$24,695,000. The annual required contribution consists of the normal cost (the portion of the actuarial present value of OPEB benefits which is allocated to a valuation year by the actuarial cost method) and an amortization of the unfunded actuarial liability. The report may be viewed at <http://www.tn.gov/finance/act/OPEB.shtml>. A new actuarial study is expected to be published in the spring of 2014. The State does not currently expect to fund any actuarially determined OPEB liability, but will continue to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for the fiscal year. The State will charge the Boards for these actual costs allocable to the Boards’ employees, but not for any actuarially determined OPEB liability. The State has the flexibility to adjust the various plan options on an annual basis, and will continue to analyze the cost of the choices available to employees and retirees and the cost of the choices on the employees, retirees and the State’s cash flow to manage these expenditures going forward.

**REVIEW AND APPROVAL PROCESS FOR FINANCING OF PROJECTS BY AUTHORITY**

For the purpose of carrying out the programs authorized by the Act and to permit the Authority to undertake the financing of Projects, the Authority’s existing policy generally requires the review and approval of a project by different bodies of State government prior to the Authority’s approval of a project undertaken for either the Board of Trustees or the Board of Regents.

The review and approval process is undertaken in the following sequence:

(1) A Project request is initiated by an Institution. Such Project is expected to relate to that Institution’s five-year capital construction plan, if applicable.

(2) The Project is reviewed by the Board of Trustees or the Board of Regents, as the case may be, and, if approved, is forwarded to the Tennessee Higher Education Commission and to the Authority.

(3) The Tennessee Higher Education Commission undertakes a review of the Project to determine its educational need and compatibility with the Institution’s master plan. The Commission then forwards its comments and recommendations to the Commissioner of Finance and Administration and the State Building Commission. At the same time, the Authority staff undertakes a review of the Project’s financial feasibility to determine if sufficient revenue has been pledged to cover the debt service for that project. The staff then forwards its comments and recommendations to the State Building Commission.

(4) The Project is then presented to the State Building Commission for approval of funding. The State Building Commission is an agency of the State of Tennessee whose permanent members consist of the Governor, Lieutenant Governor, Speaker of the House of Representatives, Comptroller of the Treasury, Secretary of State, State Treasurer and Commissioner of Finance and Administration. The State Architect serves as its Chief Staff Officer.

(5) Upon approval by the State Building Commission, the Project is forwarded to the Authority which considers the Project for inclusion under the Second Program Financing Agreement with the Board of Trustees or the Board of Regents, as the case may be.

(6) Upon approval for funding by the Authority, the Project proceeds immediately to detailed architectural design. When planning and specifications are complete, they are then forwarded to the State Architect's office for review and submission to the State Building Commission for approval.

Institutions may bring financings for the purchase of large equipment and computer software directly to the Authority. Depending on the average life of the item financed it may be amortized through the commercial paper program or through long-term or short-term fixed rate debt.

## **RATINGS**

Moody's Investors Service Inc. ("Moody's") has assigned the Offered Bonds an enhanced rating of "Aa1", with a stable outlook, based in part on its assignment to the Authority's Legislative Appropriations intercept program (see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Legislative Appropriations") of a programmatic rating of "Aa1", with a stable outlook. Standard & Poor's Ratings Services, a subsidiary of the McGraw Hill Companies, Inc. ("S&P") has assigned the Offered Bonds a rating of "AA", with a stable outlook. Fitch Ratings ("Fitch") has assigned the offered Bonds a rating of "AA+", with a stable outlook. There is no assurance that any rating will be maintained for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such revision or withdrawal may have an adverse effect on the market price of the Offered Bonds.

Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10004; and Fitch Ratings, One State Street Plaza, New York, New York, 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

## **LITIGATION**

There is no controversy or litigation of any nature now pending or threatened against the Authority to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds or the financing of the Projects or the application of the proceeds of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, the Financing Agreements, or the pledge or application of any monies or security provided for the payment of the Offered Bonds or the existence powers of the Authority, the Board of Regents or the Board of Trustees. The Board of Regents and the Board of Trustees are engaged in litigation of various natures. However, there is no litigation pending or threatened to restrain or enjoin the financing of the Projects or contesting or affecting the validity of any proceedings of the Board of Regents or the Board of Trustees taken with respect to the Financing Agreements, or the pledge or application of any monies or security provided for the payment of the Annual Financing Charges.

## **TAX MATTERS**

### **Federal Tax Matters**

#### *General*

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Offered Bonds (i) is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the Boards, and others in connection with the Offered Bonds, and Bond Counsel has assumed compliance by the Authority and the Boards with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Offered Bonds from gross income under Section 103 of the Code.

Bond Counsel expresses no opinion regarding any other Federal tax consequences with respect to the Offered Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation or otherwise. Bond Counsel expresses no opinion as to the effect of any action hereafter taken or not taken, in reliance upon an opinion of other counsel, on the exclusion from gross income for Federal income tax purposes of interest on the Offered Bonds.

For the proposed form of opinion of Bond Counsel relating to Federal tax matters, see Appendix H.

#### *Certain Ongoing Federal Tax Requirements and Covenants*

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Offered Bonds in order that interest on the Offered Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Offered Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Offered Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and the Boards have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Offered Bonds from gross income under Section 103 of the Code.

#### *Certain Collateral Federal Tax Consequences*

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Offered Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of an Offered Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Offered Bonds.

Prospective owners of the Offered Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Offered Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

#### *Original Issue Discount*

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of an Offered Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Offered Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of the Offered Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement. Bond Counsel is of the opinion that, for any Offered Bond having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bond under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Offered Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

#### *Bond Premium*

In general, if an owner acquires an Offered Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on that Offered Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Offered Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting

against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost.

Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange or other disposition of Premium Bonds.

#### *Information Reporting and Backup Withholding*

Information reporting requirements apply to interest on tax-exempt obligations, including the Offered Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing an Offered Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Offered Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

#### **State of Tennessee Tax Matters**

In the opinion of Bond Counsel to the Authority, under existing laws of the State, the Offered Bonds and the interest thereon are exempt from taxation by the State or any county, municipality or taxing district of the State, except for estate and gift taxes and taxes on transfers, and except to the extent such interest may be included within the measure of privilege taxes imposed pursuant to the laws of the State.

Bond Counsel expresses no opinion regarding any other state or local tax consequences with respect to the Offered Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation or otherwise. Bond Counsel expresses no opinion as to the effect of any action hereafter taken or not taken, in reliance upon an opinion of other counsel, under state and local tax law.

For the proposed form of opinion of Bond Counsel relating to State tax matters, see Appendix H.

#### **Miscellaneous Tax Matters**

Tax legislation, administrative action taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Offered Bonds under Federal or state law or otherwise prevent beneficial owners of the Offered Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Offered Bonds. For example, the Fiscal Year 2014 Budget proposed on April 10, 2013, by the Obama Administration recommends a 28% limitation on itemized deductions and "tax preferences," including "tax-exempt interest." The net effect of such proposal, if enacted into law, would be that an owner of a Offered Bond with a marginal tax rate in excess of 28% would pay some amount of federal income tax with respect to the interest on such Offered Bond.

Prospective purchasers of the Offered Bonds should consult their own tax advisors regarding the foregoing matters.

### **FINANCIAL ADVISOR**

Public Financial Management, Inc. ("PFM") is employed by the Authority to perform professional services in the capacity of financial advisor. In its role as financial advisor to the Authority, PFM has provided advice on the plan of financing and structure of the Offered Bonds, and reviewed certain legal and disclosure documents, including this Official Statement, for financial matters. PFM has not independently verified the factual information contained in this Official Statement, but relied on the information supplied by the Authority and other sources and the Authority's certification as to the Official Statement.

## APPROVING LEGAL OPINIONS

The validity of the Offered Bonds will be approved by the legal opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority. For the form of proposed Bond Counsel opinion relating to the Offered Bonds, see Appendix H. Certain legal matters will be passed upon by the Attorney General and Reporter of the State of Tennessee, as counsel to the Authority, and by Bass Berry & Sims PLC, as counsel to the Underwriters. No representation is made to the holders of the Offered Bonds that such counsel have verified the accuracy, completeness or fairness of the statements in this Official Statement, and such counsel assume no responsibility to the holders of the Offered Bonds except for the matters that will be set forth in their respective opinions.

## ADDITIONAL INFORMATION; CONTINUING DISCLOSURE

Additional information relating to the Authority and each Institution is contained in their respective audited financial statements. The audited financial statements of the Authority for fiscal years ended June 30, 2012 and 2011 are included herein as Appendix A. The most recent audited financial statements for each of the Institutions, as well as for certain prior years, are included herein as Appendix A.

The Authority has authorized a Continuing Disclosure Undertaking (the “Undertaking”) with respect to the Offered Bonds to assist the Underwriters in complying with U.S. Securities and Exchange Commission Rule 15c2-12(b)(5). The Undertaking is for the benefit of the holders of the Offered Bonds; beneficial owners of the Offered Bonds will be third-party beneficiaries of the Undertaking. In the Undertaking, the Authority will agree to provide certain financial information and operating data by specified dates, and to provide notice of certain enumerated events with respect to the Offered Bonds. The specific nature of the information to be provided and the notices of enumerated events, and where they will be filed, is described in the summary of certain provisions of the Undertaking, attached hereto as Appendix G.

Certain financial information and operating data required to be filed with nationally recognized municipal securities repositories pursuant to previous Rule 15c2-12 continuing disclosure undertakings by the Authority were not timely filed but have since been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system (“EMMA”). This included, for fiscal year ending June 30, 2012, (a) the information in the tables entitled (i) “Disclosed TSSBA Funded Capital Projects” and (ii) “Comparison of Tennessee Undergraduate Universities to Southern Regional Education Board Median Annual Undergraduate Tuition and Required Fees”, and (b) Tennessee Consolidated Retirement System financial information and operating data and Higher Education Employer Contributions, and Other Post-Employment Benefits unfunded liabilities and annual required contributions. The Authority agreed to make such filings by January 31, 2013; however, the tables referred to in (a) and (b) in the preceding sentence were posted on EMMA on August 12, 2013 and October 3, 2013, respectively. In addition, certain available individual institution audit reports were not timely filed with EMMA, but have since been filed in all instances and in any event were and are available on the website of the Tennessee Comptroller of the Treasury. Apart from this, the Authority has not failed to comply in any material respect with any previous continuing disclosure undertaking in a written contract or agreement specified in Rule 15c2-12.

## UNDERWRITING

J.P. Morgan Securities LLC (“JPMS”), on behalf of itself and other underwriters shown on the front cover of this Official Statement (collectively, the “Underwriters”), has agreed, subject to certain conditions, to purchase the Offered Bonds pursuant to a Bond Purchase Agreement (the “Purchase Agreement”). The Underwriters will purchase the Offered Bonds at a purchase price of \$162,848,684.97 (representing the principal amount of the Offered Bonds of \$149,130,000.00 plus original issue premium of \$14,036,286.39, less Underwriters discount of \$317,601.42).

The Purchase Agreement provides that the Underwriters shall purchase all of the Offered Bonds if any are purchased, subject to the conditions contained therein. The Offered Bonds may be offered and sold to certain dealers, banks and others at prices different than the offering prices indicated on the inside front cover page hereof, and such offering prices may be changed from time to time.

Certain of the Underwriters have provided the following paragraphs for inclusion in this Official Statement.

JPMS has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings, including the Offered Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds the such firm sells.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC., an underwriter of the Offered Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement,

Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Offered Bonds.

### **FORWARD LOOKING STATEMENTS**

The statements contained in this Official Statement, and in any other information provided by the Authority, that are not purely historical, are forward-looking statements, including statements regarding the Authority's expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Authority on the date hereof, and the Authority assumes no obligation to update any such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

### **MISCELLANEOUS**

All quotations from, and summaries and explanations of, the Act, the Financing Agreements, the Resolution, and the Undertaking contained herein do not purport to be complete and reference is made to each for full and complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement. Any statements in this Official Statement involving matters of estimate or opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the Offered Bonds.

### **TENNESSEE STATE SCHOOL BOND AUTHORITY**

By: /s/ Justin P. Wilson  
Comptroller of the Treasury;  
Secretary to the Authority

**Financial Statements of the Authority**

The Tennessee State School Bond Authority Comprehensive Annual Financial Report (“Authority CAFR”), including the audited Basic Financial Statements, for the fiscal year ended June 30, 2012 has been filed with the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system (see “ADDITIONAL INFORMATION; CONTINUING DISCLOSURE” in the Official Statement) and is obtainable from the MSRB in accordance with its procedures. A printed version is also available upon request to the Tennessee State School Bond Authority, James K. Polk State Office Building, Suite 1600, 505 Deaderick Street, Nashville, Tennessee 37243-0273, telephone (615) 401-7872, fax (615) 741-5986. The 2012 Authority CAFR and certain prior year CAFRs are posted on the Authority’s website at <http://www.comptroller.tn.gov/TSSBA/cafr.asp>

The following reports, each of which are included in the CAFR and have been posted on the Authority’s website, are incorporated herein by reference:

Independent Auditor’s Report

Management’s Discussion and Analysis

Basic Financial Statements:

Statements of Net Assets

Statements of Revenues, Expenses and Changes in Net Assets

Statements of Cash Flows

Notes to the Financial Statements

Supplementary Schedules:

Supplementary Schedules of Net Assets – Program Level

Supplementary Schedules of Revenues, Expenses, and Changes in Net Assets – Program Level

Supplementary Schedules of Cash Flows – Program Level

**Other Financial Statements**

The State of Tennessee Comprehensive Annual Financial Report (“State CAFR”), including component unit reporting of The University of Tennessee system and the Board of Trustees of the University of Tennessee, and of the State University and Community College System of the State of Tennessee and the Tennessee Board of Regents, showing of the type described in the Statement of Net Assets, Statement of Activities, and Statement of Revenues, Expenditures and Changes in Fund Balances, for the fiscal year ended June 30, 2012 has been filed with EMMA and is obtainable from the MSRB in accordance with its procedures. A printed version is also available upon request to the Authority, as described above. The 2012 State CAFR and certain prior year State CAFRs are posted on the website of the Tennessee Department of Finance and Administration at <http://www.tn.gov/finance/act/cafr.shtml>. The State CAFR and such component unit reporting is required to be filed annually with EMMA pursuant to the Authority’s continuing disclosure obligations as described in this Official Statement under “ADDITIONAL INFORMATION; CONTINUING DISCLOSURE” and in APPENDIX G – “SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE UNDERTAKING.”

The most recent audited financial statements for the schools under the supervision of the Board of Trustees and Tennessee Board of Regents are posted on the website of the Comptroller of the Treasury of the State of Tennessee, Division of State Audit, at <http://www.comptroller.tn.gov/sa/SASub.asp?SC=CUF>. Universities are audited on an annual basis and Community Colleges and Technology Centers are audited on a biennial basis. Audits are prepared on a rolling basis and are published as they become available. These financial statements are not required to be filed with EMMA as part of the Authority’s continuing disclosure obligations as described in this Official Statement under “ADDITIONAL INFORMATION; CONTINUING DISCLOSURE” and in APPENDIX G – “SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE UNDERTAKING.”

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**TENNESSEE STATE SCHOOL BOND AUTHORITY  
SELECTED STATISTICAL INFORMATION**

(Excluding Commercial Paper)  
(Expressed in Thousands)

12 Months Ending June 30	Bond Debt Service <sup>1</sup>	Admin. Expense <sup>1</sup>	Annual Debt Service and Admin. Exp. <sup>1</sup>
2014	\$ 109,171	\$ 2,635	\$ 111,806
2015	116,123	2,524	118,647
2016	116,091	2,411	118,502
2017	114,951	2,295	117,246
2018	114,372	2,177	116,549
2019	113,180	2,055	115,235
2020	108,932	1,931	110,863
2021	102,788	1,807	104,595
2022	100,564	1,689	102,253
2023	99,265	1,570	100,835
2024	95,299	1,450	96,749
2025	91,312	1,332	92,644
2026	90,698	1,218	91,916
2027	83,158	1,100	84,258
2028	81,416	992	82,408
2029	72,917	884	73,801
2030	70,336	788	71,124
2031	57,818	693	58,511
2032	57,958	620	58,578
2033	50,887	543	51,430
2034	47,582	477	48,059
2035	40,748	416	41,164
2036	41,002	362	41,364
2037	39,453	305	39,758
2038	37,191	249	37,440
2039	33,024	196	33,220
2040	31,170	150	31,320
2041	27,058	105	27,163
2042	27,365	67	27,432
2043	14,013	28	14,041
2044	14,357	14	14,371
	<u>\$ 2,200,199</u>	<u>\$ 33,083</u>	<u>\$ 2,233,282</u>

Source - TSSBA Master Bond Schedule (Unaudited)

<sup>1</sup> Includes the Offered Bonds. See "THE AUTHORITY - Outstanding Indebtedness of the Authority" for total outstanding Bonds as of November 21, 2013

**Principal Amount of Debt Outstanding by Institution**  
**(Unaudited)**  
**(Expressed in Thousands)**  
**As of November 21, 2013**

<b>Institutions</b>	<b>Authority Debt</b>		<b>Total Debt</b>
	<b>Bonds<sup>1</sup></b>	<b>Commercial Paper<sup>2,3</sup></b>	
University of Tennessee System	\$ 664,412	\$ 61,081	\$ 725,493
Tennessee Board of Regents System	652,838	23,402	676,240
<b>TOTAL</b>	<b>\$ 1,317,250</b>	<b>\$ 84,483</b>	<b>\$ 1,401,733</b>

Source - TSSBA (Unaudited)

<sup>1</sup> Includes the Offered Bonds. See "THE AUTHORITY - Outstanding Indebtedness of the Authority" for total outstanding Bonds as of November 21, 2013.

<sup>2</sup> Excludes \$4,189,869 of Commercial Paper not allocated to Institutions as of November 21, 2013.

<sup>3</sup> Excludes \$135,755,922 of Commercial Paper to be retired with proceeds of the Offered Bonds.

**University and College Funds  
Statement of Fees/Charges, Legislative Appropriations  
And Debt Service for the Last Ten Years**

The Total Fees and Charges and Legislative Appropriations (in some cases, as amended by the General Assembly) set forth in the following tables are applied to pay the cost of operation and maintenance of the following Institutions as well as the Debt Service Requirements<sup>2</sup> (excluding Commercial Paper and the Offered Bonds) listed below. (Fiscal Years end June 30) (Dollar amounts are rounded to thousands).

**UNIVERSITY OF TENNESSEE SYSTEM**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>1</sup>	Prior and Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>2</sup> (Authority Bonds)
2013 <sup>3</sup>	\$ 658,079	\$ 448,437	\$ -	\$ 54,543
2012	584,147	411,729	-	49,835
2011	685,003	548,787	-	51,079
2010	648,298	493,304	12	43,998
2009	599,973	476,333	35	43,577
2008	565,963	510,261	35	33,177
2007	532,582	471,730	45	26,652
2006	484,786	440,014	56	23,896
2005	448,955	430,412	66	25,317
2004	417,191	406,033	75	24,508

**TENNESSEE BOARD OF REGENTS SYSTEM**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>1</sup>	Prior and Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>2</sup> (Authority Bonds)
2013 <sup>3</sup>	\$ 1,936,503	\$ 621,841	\$ -	\$ 51,486
2012	1,216,903	501,867	1,399	44,270
2011	1,143,916	660,608	1,399	45,019
2010	1,039,268	633,006	1,399	43,699
2009	923,813	610,380	1,699	43,667
2008	863,336	645,952	1,889	29,545
2007	801,229	641,094	2,070	25,567
2006	747,829	599,028	2,242	19,993
2005	686,647	587,362	312	22,080
2004	637,390	554,864	428	21,253

Source - Tennessee State School Bond Authority and Universities and Colleges (Unaudited)

<sup>1</sup> Appropriations for operation and maintenance, including employer social security and retirement contributions, for the respective systems (including the respective schools and Boards).

<sup>2</sup> Debt Service Requirements consist of only principal and interest.

<sup>3</sup> Estimated; subject to change

**State of Tennessee**  
**Coverage of Annual Financing Charges and Administrative Fees for**  
**Long-Term Debt Secured By Financing Agreements<sup>1</sup>**  
**College and University Funds**  
**For the Last Ten Years**

(Expressed in Thousands)

**UNIVERSITY OF TENNESSEE SYSTEM**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Annual Financing Charges <sup>3</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2013 <sup>4</sup>	\$ 658,079	\$ 448,437	\$ 55,487	11.86 X	19.94 X
2012	584,147	411,729	53,855	10.85 X	18.49 X
2011	685,003	584,787	51,984	13.18 X	24.43 X
2010	648,298	493,304	44,804	14.47 X	25.48 X
2009	599,973	476,333	33,870	17.71 X	31.78 X
2008	565,963	510,261	33,870	16.71 X	31.78 X
2007	532,582	471,730	27,157	19.61 X	36.98 X
2006	484,786	440,014	24,425	19.85 X	37.86 X
2005	448,955	430,412	25,854	17.37 X	34.01 X
2004	417,191	406,033	24,822	16.81 X	33.17 X

**TENNESSEE BOARD OF REGENTS SYSTEM**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Annual Financing Charges <sup>3</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2013 <sup>4</sup>	\$ 1,936,503	\$ 621,841	\$ 52,483	36.90 X	48.75 X
2012	1,216,903	501,867	50,530	24.08 X	34.01 X
2011	1,143,916	660,608	46,048	24.84 X	39.19 X
2010	1,039,268	633,006	44,653	23.27 X	37.45 X
2009	923,813	610,380	30,172	30.62 X	50.85 X
2008	863,336	645,952	30,176	28.61 X	50.02 X
2007	801,229	641,094	26,059	30.75 X	55.35 X
2006	747,829	599,028	20,564	36.37 X	65.50 X
2005	686,647	587,362	22,629	30.34 X	56.30 X
2004	637,390	554,864	21,509	29.63 X	55.43 X

Source - Tennessee State School Bond Authority and Universities and Colleges (Unaudited)

<sup>1</sup> Includes Bonds. Excludes Commercial Paper.

<sup>2</sup> Does not include coverage for debt outstanding as Commercial Paper.

<sup>3</sup> Annual Financing Charges consist of principal, interest and administrative fees.

<sup>4</sup> Estimated; subject to change

**University and College  
Per Student Fees and Charges  
(2013 – 2014 Academic Year)**

Student Fees and Charges are the largest component of total Fees and Charges received by schools. Other Fees and Charges include rental revenue and other charges for use of certain Projects by faculty, administration, the public at large, and other users.

<b>Schools<sup>2</sup></b>	<b>Debt Service Fees<sup>1</sup></b>	<b>In-State Student Tuition &amp; Mandatory Fees</b>	<b>Non-Resident Student Tuition &amp; Mandatory Fees</b>	<b>Average Room Charge</b>	<b>Average Board Charge</b>
University of Tennessee-Knoxville (SO, JR, SR)	\$ 240	\$ 9,684	\$ 28,174	\$ 5,460	\$ 3,710
University of Tennessee-Knoxville (FR & Transfers)	240	11,194	\$ 29,684	5,460	3,710
University of Tennessee-Chattanooga	300	7,255	22,462	5,292	2,997
University of Tennessee-Martin	380	7,134	21,078	4,570	2,484
Austin Peay State University	274	6,884	22,100	5,575	2,974
East Tennessee State University	180	7,363	23,443	4,828	3,080
Middle Tennessee State University	408	7,432	23,662	4,905	2,915
Tennessee State University	178	6,596	19,952	3,502	3,602
Tennessee Technological University	58	7,325	23,075	3,350	4,950
University of Memphis	192	8,474	23,924	5,230	3,486
Chattanooga State Technical Community College	0	3,787	18,253	N/A	N/A
Cleveland State Community College	0	3,787	18,253	N/A	N/A
Columbia State Community College	0	3,787	18,253	N/A	N/A
Dyersburg State Community College	0	3,787	18,253	N/A	N/A
Jackson State Community College	0	3,787	18,253	N/A	N/A
Motlow State Community College	0	3,787	18,253	N/A	N/A
Nashville State Community College	0	3,787	18,253	N/A	N/A
Northeast State Technical Community College	0	3,787	18,253	N/A	N/A
Pellissippi State Technical Community College	30	3,757	18,223	N/A	N/A
Roane State Community College	0	3,787	18,253	N/A	N/A
Southwest Tennessee Community College	0	3,787	18,253	N/A	N/A
Volunteer State Community College	0	3,787	18,253	N/A	N/A
Walters State Community College	0	3,787	18,253	N/A	N/A

Source - Tennessee Higher Education Commission

<sup>1</sup> Debt Service Fees represent an additional charge by certain schools to cover a portion of such schools' debt service obligations on certain indebtedness, including Bonds. Schools which do not impose a separate Debt Service Fee may include similar charges as a portion of a student's maintenance fees.

<sup>2</sup> Includes only the primarily undergraduate serving schools.

**Tennessee Higher Education Commission**  
**History of Fall Term Full-Time Equivalent Enrollment in Public Higher Education Schools**

School <sup>1</sup>	2007	2008	2009	2010	2011	2012	% Change	
							2011-2012	2007-2012
<b>Four Year Institutions</b>								
APSU	7,139	7,499	7,566	8,493	8,513	8,508	-0.1%	19.2%
ETSU*	11,018	11,448	12,116	12,794	13,030	12,784	-1.9%	16.0%
MTSU	19,525	20,062	21,049	22,010	21,807	20,824	-4.5%	6.7%
TSU	7,465	6,694	7,025	7,142	7,159	6,901	-3.6%	-7.6%
TTU	8,312	8,568	9,057	9,361	9,525	9,636	1.2%	15.9%
UM	15,747	15,910	16,792	17,536	17,725	17,462	-1.5%	10.9%
<b>TBR Total</b>	<b>69,206</b>	<b>70,181</b>	<b>73,605</b>	<b>77,336</b>	<b>77,759</b>	<b>76,114</b>	<b>-2.1%</b>	<b>10.0%</b>
UT Chattanooga	8,168	8,446	9,116	9,788	9,845	9,951	1.1%	21.8%
UT Knoxville**	24,539	25,097	24,624	24,219	23,519	23,610	0.4%	-3.8%
UT Martin	6,108	6,305	6,714	6,959	6,852	6,770	-1.2%	10.8%
UT Health Science	2,655	2,671	2,837	2,623	2,789	2,799	0.4%	5.4%
<b>UT Total</b>	<b>41,470</b>	<b>42,519</b>	<b>43,291</b>	<b>43,589</b>	<b>43,005</b>	<b>43,129</b>	<b>0.3%</b>	<b>4.0%</b>
<b>Total 4 Year</b>	<b>110,676</b>	<b>112,700</b>	<b>116,896</b>	<b>120,926</b>	<b>120,764</b>	<b>119,243</b>	<b>-1.3%</b>	<b>7.7%</b>
<b>Two Year Schools</b>								
Chattanooga	5,044	5,334	5,987	6,712	6,671	6,585	-1.3%	30.6%
Cleveland	2,022	2,195	2,504	2,592	2,617	2,482	-5.2%	22.7%
Columbia	3,003	3,081	3,569	3,579	3,417	3,348	-2.0%	11.5%
Dyersburg	1,668	1,741	2,213	2,419	2,334	2,217	-5.0%	32.9%
Jackson	2,953	2,803	3,313	3,410	3,260	2,847	-12.7%	-3.6%
Motlow	2,739	2,892	3,353	3,337	3,069	2,925	-4.7%	6.8%
Nashville	4,063	4,315	5,154	5,619	5,686	5,681	-0.1%	39.8%
Northeast	3,387	3,606	4,231	4,624	4,423	4,289	-3.0%	26.6%
Pellissippi	5,446	5,686	6,695	7,274	7,402	7,057	-4.7%	29.6%
Roane	3,764	3,766	4,227	4,389	4,205	4,153	-1.2%	10.3%
Southwest	6,794	7,219	8,465	8,431	8,216	7,555	-8.0%	11.2%
Volunteer	4,427	4,582	5,501	5,777	5,449	5,091	-6.6%	15.0%
Walters	3,884	4,082	4,780	4,808	4,595	4,425	-3.7%	13.9%
<b>Total 2 Year</b>	<b>49,194</b>	<b>51,302</b>	<b>59,993</b>	<b>62,973</b>	<b>61,343</b>	<b>58,656</b>	<b>-4.4%</b>	<b>19.2%</b>
<b>Grand Total</b>	<b>159,870</b>	<b>164,002</b>	<b>176,889</b>	<b>183,898</b>	<b>182,107</b>	<b>177,899</b>	<b>-2.3%</b>	<b>11.3%</b>

**Five-Year Annual Growth Rate**  
**2.2%**

Source - Tennessee Higher Education Commission Fact Book

\* ETSU includes the Medical and Pharmacy schools

\*\*The University of Tennessee, Knoxville includes the Veterinary school and the UT Space Institute

<sup>1</sup> TBR = Tennessee Board of Regents, APSU = Austin Peay State University, ETSU = East Tennessee State University, MTSU = Middle Tennessee State University, TSU = Tennessee State University, TTU = Tennessee Technological University, UOM = University of Memphis, UT = University of Tennessee, UTC = University of Tennessee at Chattanooga, UTK = University of Tennessee at Knoxville, UTM = University of Tennessee at Martin, UTMem = University of Tennessee at Memphis, CSTCC = Chattanooga State Technical Community College, CLSCC = Cleveland State Community College, COSCC = Columbia State Community College, DSCC = Dyersburg State Community College, JSCC = Jackson State Community College, MSCC = Motlow State Community College, NSTCC = Northeast State Technical Community College, NSCC = Nashville State Community College, PSTCC = Pellissippi State Technical Community College, RSCC = Roane State Community College, SSCC = Shelby State Community College, STIM = State Tennessee Institute in Memphis, STCC = Southwest Tennessee Community College, VSCC = Volunteer State Community College, WSCC = Walters State Community College

## GLOSSARY OF CERTAIN TERMS

The following terms, as used in this Official Statement including the Appendices hereto, have the respective meanings provided below. These summary definitions do not purport to be complete or definitive and are qualified in their entirety by reference to the Resolution and Financing Agreements, copies of which are on file at the offices of the Authority and the Trustee.

**"Account"** or **"Accounts"** means each account or all of the accounts established pursuant to the Resolution, as the case may be.

**"Accreted Value"** means with respect to any Capital Appreciation Bonds (i) as of any Valuation Date, the amount set forth for such date in the Supplemental Resolution authorizing such Capital Appreciation Bonds and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date and (2) the difference between the Accreted Values for such Valuation Dates. For purposes of this definition, the number of days having elapsed from the preceding Valuation Date and the number of days from the preceding Valuation Date to the next succeeding Valuation Date shall be calculated on the basis of a three hundred sixty (360) day year of twelve (12) thirty (30) day months or otherwise with respect to any Series of Bonds as may be provided by the Supplemental Resolution authorizing the issuance thereof.

**"Act"** means the Tennessee State School Bond Authority Act, Sections 49-3-1201 *et seq.*, Tennessee Code Annotated, as amended from time to time.

**"Administrative Expenses"** means the Authority's expenses of carrying out and administering its powers, duties and functions in connection with the Agreements, the Projects and the Resolution, and shall include, without limiting the generality of the foregoing: administrative expenses, legal, accounting and consultant's services and expenses, the fees and expenses of the Trustee, Paying Agents and Registrar, payments to pension, retirement, health and hospitalization funds, and any other expenses required or permitted to be paid by the Authority under the provisions of the Act, the Financing Agreements or the Resolution or otherwise.

**"Annual Financing Charges"** means the amounts payable by the Boards to the Authority under the Financing Agreements for (i) the payment of principal of and premium, if any, and interest on Debt for all Projects and all Institutions, (ii) any payments to fund or replenish reserves therefor as may be required by the Resolution, regardless of Project or Institution, and (iii) any other payments required to be made by or on behalf of the Authority under or pursuant to the Resolution with respect to any Project, any Institution or the Board.

**"Authenticating Agent"** means an authenticating agent appointed pursuant to the Resolution.

**"Authority"** means the Tennessee State School Bond Authority, the corporate governmental agency and instrumentality created by the Act, or any body, agency or instrumentality of the State which shall succeed to the powers, duties and functions of the Authority.

**"Authorized Officer"** means any member of the Authority, and any other officer or employee of the Authority authorized by law, by resolution of the Authority or by a certificate of the Secretary of the Authority to perform the act or sign the document in question.

**"Bank Bonds"** means Reimbursement Obligations under Credit Facilities represented by Bonds; provided, however, that Bank Bonds do not include any Bonds issued to or held by any party providing a Credit Facility or its designee in any other capacity.

**"Board"** or **"Boards"** means the Board of Regents or the Board of Trustees, or both such Boards, respectively.

**"Board of Regents"** means the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee, and its successors.

**"Board of Trustees"** means the Board of Trustees of The University of Tennessee, and its successors.

**"Bond" or "Bonds"** means any Bond or Bonds issued under the Resolution, including but not limited to Variable Interest Rate Bonds, Capital Appreciation Bonds and Refunding Bonds. Bonds shall not include Subordinated Obligations.

**"Bond Year"** means the twelve month period commencing on May 1 of each calendar year and ending on April 30 of the next succeeding calendar year except that the first Bond Year shall begin on the date specified in the Supplemental Resolution authorizing the first Series of Bonds.

**"Business Day"** means any day other than (i) a Saturday or Sunday, (ii) a day on which banking institutions located in the State or in any of the cities in which the principal office of the Trustee, any Paying Agent, the Registrar or the provider of a Reserve Fund Credit Facility are required or authorized by law or executive order to close or (iii) a day on which the New York Stock Exchange is closed, and (iv) with respect to a particular Series of Bonds, a day on which any provider of a Credit Facility for such Series of Bonds is located is required or authorized by law or executive order to close or as may otherwise be provided by the Supplemental Resolution authorizing such Series of Bonds.

**"Capital Appreciation Bonds"** means any Bonds as to which interest is payable only at the maturity or prior redemption of such Bonds or which bear a stated interest rate of zero. For the purposes of (i) receiving payment of the Redemption Price if a Capital Appreciation Bond is redeemed prior to maturity or upon acceleration as provided in the Resolution, or (ii) computing the principal amount of Bonds held by the Owner of a Capital Appreciation Bond in giving to the Authority or any Fiduciary any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

**"Commercial Paper"** means all Commercial Paper issued under the Commercial Paper Resolution.

**"Commercial Paper Resolution"** means the Commercial Paper Resolution adopted by the Authority on November 18, 1997, as the same may be supplemented or amended.

**"Counsel's Opinion"** means an opinion signed by an attorney or firm of attorneys selected by or satisfactory to the Authority (who may be counsel to the Authority) which attorney or firm of attorneys is of recognized standing in the field of law relating to municipal bonds; provided, however, that such Counsel's Opinion may take customary exception as to the effect of, or for restrictions or limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization, laws affecting creditors' rights, the exercise of judicial discretion and other matters, and may state that no opinion is being rendered as to the availability of any particular remedy or as to the limitation of remedies resulting from sovereign immunity or the partial waiver thereof, and may contain such other references and qualifications as are acceptable to the Fiduciary receiving the same.

**"Credit Facility"** means any irrevocable letter of credit, standby bond purchase agreement, line of credit, policy of bond insurance, surety bond or agreement, guarantee or similar instrument which is obtained by the Authority and is issued by a financial, insurance or other institution, the State or any subdivision, department, instrumentality or agency thereof, and the Tennessee Consolidated Retirement System or any successor entity thereto then managing and investing the State retirement funds, and which provides credit enhancement, security or liquidity in respect of the Bonds (and which, with respect to a policy of bond insurance, guarantees the payment of principal of and interest on the Bonds), not including any Reserve Fund Credit Facility.

**"Debt"** means any bonds, notes or other evidences of indebtedness issued by the Authority pursuant to the Act and the Resolution for the purpose of financing or refinancing Project Costs. Without limiting the generality of the foregoing, Debt may include "long-term Debt" (i.e., with a term of more than one year unless issued in anticipation of the issuance of Debt with a longer term) or "short-term Debt" (i.e., with a term of one year or less or issued in anticipation of the issuance of Debt with a term of more than one year), and may take the form of commercial paper.

**"Debt Service Reserve Requirement"** means, with respect to each Series of Bonds (other than Bonds as to which the Authority has elected to establish a separate account in the Debt Service Reserve Fund solely for such Bonds, as described in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Debt Service Reserve Fund"), as of any date of calculation, (i) an amount equal to the aggregate of the greatest amount of Debt Service on all Outstanding Bonds of such Series issued for each Project (calculated separately for each Project and then aggregated) payable on any interest or Principal Installment date thereafter (except that for the first such date after the date of issuance of such Bonds, interest to accrue for greater than 6 months but less than 12 months shall not be taken into account), or (ii) such greater amount, which subsequently may be reduced to an amount not less than the amount required by clause (i) above, as may be determined from time to time by the Authority by Supplemental Resolution; provided, however, that as a result of the issuance of any Series of Bonds the interest on which is generally excluded from gross income for Federal income tax purposes, the Debt Service Reserve Requirement with respect to such Series shall at no time exceed the lesser of

(i) the amount that may be funded from the proceeds of such Bonds or (ii) the amount that constitutes a reasonably required reserve with respect to such Bonds. Each determination by the Authority of the Debt Service Reserve Requirement shall be conclusive. For purposes of this definition:

- (A) **"Debt Service"** for any date or period means, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) the interest payable on such date or accruing during such period on the Outstanding Bonds of such Series, and (ii) the Principal Installment for such Series payable on such date or accruing during such period on the Outstanding Bonds of such Series; provided, however, that in calculating Debt Service on any future date or for any future period: (x) any Variable Interest Rate Bonds shall be deemed to bear interest at all times prior to the maturity date thereof for which the interest rate payable thereon has not yet been determined at the Debt Service Determination Interest Rate applicable thereto and (y) any interest on any Bonds secured by a Credit Facility the related Reimbursement Obligation on which is evidenced by a Bank Bond shall be calculated at the higher of the actual interest rate or, if applicable, the Debt Service Determination Interest Rate applicable to such Bonds or the maximum rate of interest permitted for any such Reimbursement Obligation (whether or not any Reimbursement Obligation has yet accrued).
- (B) **"Debt Service Determination Interest Rate"** means, with respect to any particular Variable Interest Rate Bonds, any numerical rate or rates of interest set forth, or determined as set forth, in the Supplemental Resolution authorizing such Bonds; provided, however, that such rate shall not be less than the interest rate initially borne by such Bonds.
- (C) **"Proceeds"** and **"reasonably required reserve"** shall have the respective meanings given such terms, or any comparable terms, for purposes of Section 148(d) of the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

**"Defeasance Obligations"** means Investment Obligations which are rated at the time of investment in any of the two highest Rating Categories by any Rating Agency, and which (i) shall not be subject to redemption prior to their maturity other than at the option of the holder thereof and (ii) shall not be subject to redemption prior to their maturity other than at the option of the holder thereof or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof.

**"Direct DTC Participant"** shall have the meaning given to such term in Appendix F - "BOOK-ENTRY ONLY SYSTEM".

**"Fees and Charges"** means, with respect to each Board, all revenues, fees, rentals and other charges and moneys received by or on behalf of the Board for the Institution, or received by or on behalf of the Institution, for which any Project is undertaken which may be available for the purpose of paying Annual Financing Charges.

**"Fiduciary"** or **"Fiduciaries"** means the Trustee (including, where appropriate, any co-Trustee or Authenticating Agent), any Paying Agent, the Registrar, or any or all of them, as may be appropriate, or any other Person appointed to act as a Fiduciary as provided in the Resolution.

**"Financing Agreement"** or **"Financing Agreements"** means the Second Program Financing Agreement dated as of November 1, 1997, by and between the Authority and the Board of Trustees, and the Second Program Financing Agreement dated as of November 1, 1997, by and between the Authority and the Board of Regents, as appropriate, in each case as supplemented and amended from time to time.

**"First Program Financing Agreements"** means the Amended and Restated Financing Agreement dated as of September 17, 1996, between the Authority and the Board of Trustees, and between the Authority and the Board of Regents. The following terms, when identified as related to the **First Program**, shall have the respective meanings given to them in the First Program Financing Agreements: **administrative fees, Annual Financing Charges, Bonds, Fees and Charges, General Bond Resolution, Legislative Appropriations and Projects.**

**"Fiscal Year"** means, with respect to the Authority, currently the twelve month period commencing on July 1 and ending on June 30 of the following year. In the event of any change in Fiscal Year resulting in an initial Fiscal Year or interim period of more or less than twelve months, Fiscal Year for purposes of the Financing Agreements shall mean the last twelve month Fiscal Year.

**"Fitch"** means Fitch IBCA, Inc., or any successor then maintaining a rating on any Bonds at the request of the Authority.

**"Fund"** or **"Funds"** means each fund or all of the funds established in the Resolution, as the case may be.

**"Indirect DTC Participant"** shall have the meaning given to such term in Appendix F - "BOOK-ENTRY ONLY SYSTEM".

**"Institution"** means, as appropriate, (i) the University of Tennessee system, including all of its branches and divisions wherever located, and the services, programs and activities provided therein, and the Board of Trustees, in the aggregate, and (ii) the state university and community college system, including all of its constituent institutions wherever located (whether or not conferring degrees), and the services, programs and activities provided therein, and the Board of Regents, in the aggregate. [This definition is as amended on May 9, 2013, as discussed in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Recent Amendments to the Act, the Resolution and the Financing Agreements" in this Official Statement.]

**"Investment Obligations"** means and include any instruments, securities, certificates, obligations or the like if and to the extent the same are at the time permitted and legal for investment of the Authority's funds pursuant to the Act or in accordance with any other law, regulation, guideline or policy, as in effect from time to time, of or applicable to the Authority with respect to investments.

**"Legislative Appropriations"** means the amounts payable to the Authority from appropriations by the General Assembly of the State to an Institution for its operation and maintenance, under and pursuant to the Act and the Financing Agreements, including but not limited to amounts deductible, by Persons other than the Boards, from such appropriations for payment directly to the Authority.

**"Moody's"** means Moody's Investors Service, Inc., or any successor then maintaining a rating on any Bonds at the request of the Authority.

**"Outstanding"** when used with reference to Bonds, other than Bonds held by or for the account of the Authority or either of the Boards, means, as of any date, Bonds theretofore or then being delivered under the provisions of the Resolution, except:

- (A) any Bonds cancelled at or prior to such date;
- (B) any Bonds (or portions of Bonds) the principal or Redemption Price, if any, of, and interest on which shall have been paid in accordance with the terms thereof;
- (C) any Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered upon exchange or transfer pursuant to the Resolution;
- (D) Bonds deemed to have been paid as provided in the Resolution; and
- (E) Put Bonds deemed tendered in accordance with the provisions of the Supplemental Resolution authorizing such Bonds on the applicable tender date, if the purchase price thereof and interest thereon shall have been paid or amounts are available for such payment as provided in the Resolution, except to the extent such tendered Put Bonds thereafter may be resold pursuant to the terms thereof and of the Resolution;

unless a Supplemental Resolution provides that Bonds of a Series having the benefit of a Credit Facility shall not thereby be deemed paid if payment is provided by the Credit Facility. If principal of a Bond is paid or redeemed by the provider of a Credit Facility, the related Reimbursement Obligation shall be treated as an Outstanding Bond (when such related Reimbursement Obligation is not evidenced by Bonds designated as Bank Bonds) in lieu of the Bond so paid or redeemed, but only to the extent that principal of the Bond was so paid or redeemed, bearing interest at the interest rate provided in the Credit Facility.

**"Owner"** or **"Bondowner"** (when used with reference to Bonds) or any similar term, means any Person who shall be the registered owner of any Outstanding Bond.

**"Paying Agent"** means any paying agent for the Bonds of any Series and its successor or successors and any other Person which may at any time be substituted in its place, pursuant to the Resolution.

**"Person"** means any individual, corporation, partnership, limited partnership, joint venture, association, joint-stock company, trust, unincorporated association, limited liability corporation or partnership, or government or any agency or subdivision thereof, or other legal entity or group of entities.

**"Principal Installment"** means, as of any date of calculation with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

**"Project"** means a Project as such term is defined in the Financing Agreements. In the Financing Agreement with each Board, "Project" is defined as buildings, structures, improvements and equipment of every kind, nature and description which may be required by or convenient for the purposes of an Institution or other things which the Board is authorized by law (at the relevant time) to undertake or use, in each case if and to the extent (i) capitalizable by the Board, including but not limited to a capital lease, and (ii) approved by the Authority upon application therefor made by the Board in such form, substance and manner as may be prescribed by the Authority, all subject to any permissible amendment of the Financing Agreement. See Appendix D – "Summary of Certain Provisions of the Financing Agreements – Amendment". Pursuant to legislation adopted at the 2005 session of the General Assembly, computer software (whether acquired before, at the same time as, or after the hardware needed for utilization of the software) to the extent accounted for as a capital asset shall constitute equipment for financing purposes, and projects may include agricultural land related to educational purposes of an Institution purchased from a governmental entity prior to October 1, 2005.

**"Project Cost"** means all direct capital costs and indirect capital costs of Projects, including but not limited to costs of construction and acquisition, costs of issuance of Debt, funded interest on Debt, and amounts to fund or replenish reserves as may be required by the Resolution, if and to the extent approved by the Authority upon application therefor made by the Board in such form, substance and manner as may be prescribed by the Authority.

**"Put Bonds"** means Bonds which by their terms may be tendered by and at the option of the Owner thereof for payment prior to the stated maturity or redemption date thereof either (i) by the Authority and by the Person and/or from the source specified in a Supplemental Resolution or (ii) without recourse to the Authority by the Person and/or from the source specified in a Supplemental Resolution.

**"Qualified Swap"** means, to the extent from time to time permitted by law, any cap, floor or collar, forward rate, future rate, asset, swap or index, price or market linked transaction or agreement, other exchange or rate protection transaction or agreement, other similar transaction (however designated) or any combination thereof, or any option with respect thereto, executed by the Authority with or guaranteed by a qualified swap counterparty either for asset or liability management purposes or otherwise pursuant to the Act or other applicable law. For purposes of this definition, **"qualified swap counterparty"** means a bank, insurance company or financial institution rated, or whose long-term obligations of any nature or claims paying ability are rated, at the time of execution in one of the two highest Rating Categories of any Rating Agency.

**"Rating Agency"** means, at any applicable time, Moody's, S&P, Fitch and any other nationally recognized rating agency, or any of them, as appropriate; provided, however, that the same maintains at such time a rating on the Bonds at the request of the Authority.

**"Rating Category"** means a generic rating category of an applicable Rating Agency without regard to any refinement or gradation of such rating by a numerical modifier or otherwise.

**"Redemption Price"** means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon maturity or redemption thereof pursuant to the Resolution and the Supplemental Resolution pursuant to which the same was issued.

**"Refunding Bonds"** means all Bonds constituting the whole or a part of a Series of Bonds delivered on original issuance pursuant to the Resolution.

**"Registrar"** means the registrar for the Bonds of any Series, and its successor or successors and any other Person which may at any time be substituted in its place pursuant to the Resolution.

**"Reimbursement Obligation"** means any obligation of the Authority to make payments to a provider of a Credit Facility in reimbursement of or as interest on (which interest may be higher than the interest rate on the related Bond) an advance, loan or other payment made by such provider for the purpose of paying (i) the principal, Sinking Fund Installment, if any, or Redemption Price of, or interest on, any Bonds, or (ii) the purchase price, plus accrued interest, if any, of any Bonds tendered pursuant to the provisions of the applicable Supplemental Resolution, but only to the extent the principal amortization requirements with respect to such reimbursement are equal to the amortization requirements for such related Bonds, without acceleration. Reimbursement Obligations shall not include (a) any payments of any fees, expenses, or other similar obligations to any such provider, which payments shall be Administrative Expenses or (b) any payments pursuant to term-loan or other principal amortization requirements in reimbursement of any such advance that are more accelerated than the amortization requirements on such related Bonds, which payments shall be Subordinated Obligations. Reimbursement Obligations may be evidenced by Bonds designated as Bank Bonds, which may bear a higher interest rate than the rate borne by the Bonds to which they relate.

**"Reserve Fund Credit Facility"** means (i) any irrevocable, unconditional letter of credit issued by a bank, national banking association or savings and loan association, (ii) any insurance policy providing substantially equivalent liquidity as an irrevocable, unconditional letter of credit, and which is issued by a municipal bond or other insurance company, and (iii) any other similar financial arrangement as determined by Supplemental Resolution, and which is used to fund all or a portion of the Debt Service Reserve Requirement; provided, however, that at the time of acceptance by the Authority, the provider's long term obligations of any nature or claims paying ability are rated, by each Rating Agency then rating any Outstanding Bonds, no lower than the same Rating Category (for this purpose, taking into account refinements and gradations) as the Bonds are then rated by such Rating Agency.

**"Resolution"** means the Second Program General Bond Resolution adopted by the Authority on April 27, 1998, as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms and provisions thereof.

**"S&P"** means Standard and Poor's Rating Services, a division of the McGraw-Hill Companies, or any successor then maintaining a rating on any Bonds at the request of the Authority.

**"Serial Bonds"** means the Bonds which mature in annual or semi-annual installments of principal, which need not be equal and the first installment of which may be deferred, or Bonds so designated in a Supplemental Resolution.

**"Series"** or **"Series of Bonds"** or **"Bonds of a Series"** or words of similar meaning means the Series of Bonds authorized by a Supplemental Resolution.

**"Series Certificate"** means the certificate of determination of the Authority fixing terms, conditions and other details of a Series of Bonds in accordance with the delegation of power to do so under the General Bond Resolution and under an applicable Supplemental Resolution.

**"Sinking Fund Installment"** means, as of any date of calculation and with respect to any Bonds of a Series, so long as any Bonds thereof are Outstanding, the amount of money required by the Resolution or the applicable Supplemental Resolution or Series Certificate to be paid on a single future date for the retirement of any Outstanding Bonds of said Series that mature after said future date and which is unsatisfied as determined pursuant to the Resolution, but does not include any amount payable by the Authority by reason only of the maturity of a Bond.

**"Sinking Fund Payment Date"** means each date on which a Sinking Fund Installment is payable on the Bonds, provided that such date shall be a date on which a Sinking Fund Installment is payable as provided in or pursuant to each Supplemental Resolution.

**"State"** means the State of Tennessee.

**"Subordinated Obligations"** means any evidence of indebtedness (including but not limited to commercial paper), other than Bonds or related Reimbursement Obligations, issued by the Authority to finance Project Costs of a Project or any other indebtedness issued, or other obligations entered into (including but not limited to Qualified Swaps not entered into on a parity with Bonds), pursuant to or as permitted by, and complying with, the provisions of the Resolution.

**"Supplemental Resolution"** means any resolution adopted by the Authority pursuant to and in compliance with the provisions of the Resolution providing for the issuance of a Series of Bonds, and shall also mean any other resolution adopted pursuant

to and in compliance with the provisions of the Resolution amending or supplementing the provisions of the Resolution as originally adopted or as theretofore amended or supplemented.

**"Term Bonds"** means the Bonds so designated in a Supplemental Resolution and payable in part from Sinking Fund Installments.

**"Trustee"** means the bank, trust company or national banking association appointed pursuant to the Resolution to act as trustee under the Resolution, and its successor or successors and any other bank, trust company or national banking association at any time substituted in its place pursuant to the Resolution.

**"Valuation Date"** means with respect to any Capital Appreciation Bonds the date or dates set forth in the Supplemental Resolution authorizing such Bonds on which specific Accreted Values are assigned to the Capital Appreciation Bonds.

**"Variable Interest Rate"** means a variable interest rate or rates (or a multiple of a variable rate or rates of interest) to be borne by any Bond within a Series of Bonds. The method of computing such variable interest rate or rates shall be specified in the Supplemental Resolution authorizing such Series of Bonds. Such Supplemental Resolution shall also specify either (i) the particular period or periods of time for which such variable interest rate or rates (or a multiple of a variable rate or rates of interest) shall remain in effect or (ii) the time or times upon which any change in such variable interest rate or rates (or a multiple of a variable rate or rates of interest) shall become effective.

**"Variable Interest Rate Bonds"** means Bonds which bear a Variable Interest Rate but does not include any Bond which, during the remainder of the term thereof to maturity, bears interest at a fixed rate.

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

## SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENTS

The following is a brief summary of certain provisions of the Financing Agreements, summaries of certain other provisions of which are contained elsewhere in this Official Statement. This and such other summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the Financing Agreements, copies of which are available at the offices of the Authority and the Trustee. For definitions of certain terms used herein, see Appendix C - "GLOSSARY OF CERTAIN TERMS"; provided, however, that for purposes of this summary, the term "Resolution" means, collectively or individually as the context may require, the resolutions of the Authority authorizing the issuance of Debt including, without limiting the generality of the foregoing, the Higher Educational Facilities Second Program General Bond Resolution and any resolutions authorizing the issuance of notes or other obligations (including but not limited to commercial paper), in each case as amended and supplemented pursuant to the provisions thereof.

### **Approval of Projects and Project Costs**

Each Project and Project Costs shall be subject to approval by the Authority upon application therefor made by the Board in such form, substance and manner as may be prescribed by the Authority.

A Project for an Institution shall be approved by the Authority only if the aggregate of the Fees and Charges collected by the Institution in the preceding Fiscal Year is no less than two times the amount required for the payment of the aggregate (without duplication) of (i) the maximum amount of the Annual Financing Charges payable and projected to be payable with respect to all Projects (including the Project to be approved) for the Institution in any succeeding Fiscal Year, plus (ii) the maximum amount payable by the Board as First Project Annual Financing Charges with respect to all First Program Projects for the Institution in any succeeding Fiscal Year, plus (iii) the aggregate of all prior charges, pledges, liens and claims on or payable from said Fees and Charges with respect to the Institution in any succeeding Fiscal Year, including but not limited to all prior charges, pledges, liens and claims on or payable from the First Program Fees and Charges with respect to the Institution.

### **Project Funding**

The Authority will use its best efforts to finance and refinance Project Costs by the issuance of Debt or from other available funds of the Authority, in a manner and under terms deemed by the Authority in its sole discretion to be in the best interests of the Institution for which the related Project is undertaken or used.

### **Project Construction Accounts; Reallocation of Balances**

The Authority will establish a separate account (a "Project Construction Account") for each Project prior to or simultaneously with the issuance of the first Debt to finance related Project Costs. All Bond proceeds determined by the Authority to be available for the payment of Project Costs, shall be deposited in the respective Project Construction Accounts unless and to the extent otherwise provided by the Resolution.

The Authority may reallocate funds in any Project Construction Account derived from the sale of short-term Debt to other Project Construction Accounts as deemed necessary or advisable by the Authority. If long-term Debt has been sold to finance or refinance a Project, and funds in the related Project Construction Account are determined by the Authority in its sole discretion to be in excess of the amount needed for completion of the Project, the Authority shall apply such excess funds to the payment of the next scheduled debt service on Debt for such Project, to the redemption or defeasance of such Debt, or otherwise as permitted by law to the extent permitted by the Resolution.

### **Payment of Project Costs**

Disbursement of funds on deposit in Project Construction Accounts will be made upon the submission of proper documentation from the Board approved by the Authority. Submission by the Board of a request for disbursement constitutes a representation by the Board that the expenses presented for payment constitute proper and valid charges related to the Project and constitute Project Costs, and that all covenants and representations made to the Authority with respect to the Project, whether in the Agreement or otherwise, continue to be true, complete and accurate.

## **Covenants and Representations**

The Board covenants and represents with respect to each Project, among other things, that: (a) all necessary approvals or authorizations by the State (or any agency, subdivision or subentity) with respect to the Project have been or will be obtained; (b) the Board will neither (i) permit any encumbrance which materially affects the Board's ability to honor its commitments under the Financing Agreement nor (ii) assign the Financing Agreement or the Board's rights, title or interest in or to any Project; (c) the Board will operate, maintain and keep, or cause the operation, maintenance and functioning of, the Project in good repair and condition, including the provision of and payment for necessary utilities and insurance coverage in accordance with State policy; (d) the Board will comply with all laws, rules and regulations governing the Institution and the Project; and (e) the Board will take no action, nor will it fail to take any action, which would cause the Authority to violate any tax covenant with respect to any Project.

## **Annual Financing Charges; Administrative Fees; and Legislative Appropriations**

For a summary of certain provisions of the Financing Agreements relating to the establishment, payment and subordination of Annual Financing Charges, Administrative Fees and Legislative Appropriations, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in the Official Statement.

## **Interest of Debtholders**

The Authority and the Board acknowledge that the existence and terms and provisions of the Agreement serve as an inducement to Debtholders to purchase, and serve to secure, Debt. Accordingly, all covenants and agreements of the Authority and the Board under the Financing Agreement are declared therein to be for the benefit of such holders. Notwithstanding the foregoing, such holders shall have no right under the Financing Agreement to directly enforce the Financing Agreement, but may do so only to the extent permitted and as provided by the related Resolution.

## **Assignments**

The Board authorizes the Authority to pledge, assign, and transfer its right to receive and collect Annual Financing Charges, Administrative Fees, and Legislative Appropriations, together with its rights to enforce the Financing Agreement. The Authority has pledged and assigned the Annual Financing Charges and Legislative Appropriations to the Trustee for the benefit of the holders of the Bonds and for the application thereof in accordance with the provisions of the Resolution, and has granted the Trustee the legal right to enforce such pledge and assignment and the provisions of the Agreements providing for the payment thereof. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Pledge and Assignment of Annual Financing Charges and Legislative Appropriations" in the Official Statement.

## **Amendment**

Any provision of the Financing Agreement may be amended by agreement of the Authority and the Board; provided, however, that no such amendment shall adversely affect or impair in any way (i) the obligation of the Board to pay Annual Financing Charges or Administrative Fees, or (ii) the deduction from appropriations, and payment to the Authority, of Legislative Appropriations required to pay Annual Financing Charges, in the case of each of clauses (i) and (ii) at the times, in the manner and in the amounts provided in the Agreement, or (iii) any provision of the Agreement made or provided for the purpose of assuring payment of such Annual Financing Charges or Administrative Fees.

## **Additional Information**

The Board agrees to furnish to the Authority such additional information concerning the financial condition of the Board and any Institution as the Authority may from time to time reasonably request including, without limiting the generality of the foregoing, as and to the extent that the Authority shall determine that disclosure of such information is necessary in order to comply with any undertakings made by the Authority pursuant to Rule 15c2-12 of the Securities and Exchange Commission or with any other applicable legal requirements.

## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary of certain provisions of the Resolution, summaries of certain other provisions of which are contained elsewhere in this Official Statement. This and such other summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the Resolution, copies of which are available at the offices of the Authority and the Trustee. For definitions of certain terms used herein, see Appendix C - "GLOSSARY OF CERTAIN TERMS".

### **Authorization**

The Resolution authorizes the issuance of Bonds in Series pursuant to Supplemental Resolutions, for any purpose authorized by the Act. For a summary of the conditions for the issuance of Bonds and their security and sources of payment, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in the Official Statement.

### **Pledge and Assignment of Annual Financing Charges and Legislative Appropriations**

The Annual Financing Charges and Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, which are to be transferred to the Funds or Accounts held by the Trustee, if any, are pledged and assigned to the Trustee for the benefit of the Owners of the Bonds and for the application thereof in accordance with the provisions of the Resolution, and the Trustee shall have the legal right to enforce such assignment. Regardless of such pledge and assignment, the Trustee shall have the legal right to enforce the provisions of the Agreements providing for the payment thereof in the manner provided in the Financing Agreements and the Resolution.

The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Annual Financing Charges, Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, the Financing Agreements, and other moneys, securities, funds and property pledged and assigned under the Resolution and all the rights of the Bondowners under the Resolution against all claims and demands of all Persons whomsoever.

### **Certain Provisions Relating to Credit Facilities, Qualified Swaps and Other Arrangements**

The Authority may include such provisions in a Supplemental Resolution authorizing the issuance of a Series of Bonds secured by a Credit Facility as the Authority deems appropriate, including but not limited to:

- (1) So long as the Credit Facility provides security and not merely liquidity, that the providers thereof shall have all or any of the rights and remedies of the Owners of the Bonds to which such Credit Facility relates and that the related Reimbursement Obligations shall have all or any of the payment, security and other rights applicable to the Bonds to which such Reimbursement Obligations relate.
- (2) In the event that the principal, Sinking Fund Installments, if any, and Redemption Price of and interest due on any Bonds Outstanding shall be paid under the provisions of a Credit Facility, the issuer of such Credit Facility shall be subrogated to the rights of such Bondowners in accordance with the terms of such Credit Facility.
- (3) Interest on any Reimbursement Obligation calculated at any rate, whether or not higher than the interest rate on the related Bond, and principal amortization requirements with respect to such Reimbursement Obligation, may be secured by a pledge of and a lien on any of the items pledged in the Resolution for the security of the Bonds on a parity with the lien created by the Resolution. A Reimbursement Obligation shall not be secured by the Debt Service Reserve Fund unless the Bonds to which it relates are so secured. Reimbursement Obligations shall not include any payments of any fees, expenses, indemnification, or other obligations to any such provider, which payments shall be Subordinated Obligations payable from the General Fund. All Reimbursement Obligations shall be deemed to be a part of the Series of Bonds to which the Credit Facility which gave rise to such Reimbursement Obligations relates. Reimbursement Obligations may be evidenced by Bonds designated as "Bank Bonds."

In connection with the issuance of a Series of Bonds or at any time thereafter so long as a Series of Bonds remains Outstanding, the Authority may, to the extent from time to time permitted pursuant to law, enter into Qualified Swaps relating to such Bonds. The Authority's obligation to make any payment under any Qualified Swap may be secured by a pledge of, and a lien on, the items pledged in the Resolution for the security of the Bonds on a parity with the lien created by the Resolution or be payable from or secured by amounts on deposit in the Debt Service Fund or Debt Service Reserve Fund, or shall constitute Subordinated Obligations payable from the General Fund, as determined by the Authority; provided, however, that any optional or mandatory termination payments shall constitute Subordinated Obligations. If a Qualified Swap is payable from and/or secured by the Debt Service Fund and Debt Service Reserve Fund, the Authority may provide by Supplemental Resolution for a recalculation of the Debt Service Reserve Requirement for any Bonds to take into account the Authority's debt service payment obligations on such Bonds as affected by such Qualified Swap.

## **Funds and Accounts**

For a description of the flow of funds under the Resolution and of the application of the Debt Service Fund and Debt Service Reserve Fund, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Flow of Funds" and "- Debt Service Reserve Fund" in the Official Statement.

## **Construction Fund**

The Authority shall establish in the Construction Fund, to be held by the State Treasurer or, at the direction of the State Treasurer, a separate custodian, a separate Account with respect to each Project. As promptly as practicable after the delivery of any Series of Bonds or Subordinated Obligations to pay Project Costs, the Authority shall deposit into each Project Construction Account the amount of the proceeds derived from the sale of such Series of Bonds or Subordinated Obligations, if any, as shall be directed by or pursuant to the Supplemental Resolution or other resolution or indenture authorizing the issuance thereof. Moneys on deposit in or credited to a Project Construction Account shall be used by the Authority for payment of the Project Costs of the Project to which the Project Construction Account relates. The Authority may transfer from a Project Construction Account to the General Fund such amounts as the Authority shall determine is necessary to pay Administrative Expenses of the Authority chargeable to the Project to which such Project Construction Account relates.

Upon completion of a Project the moneys, if any, remaining in the Project Construction Account for such Project, after making provision for the payment of allocable Administrative Expenses and Project Costs then unpaid, either shall be reallocated by the Authority to other Projects in accordance with the Financing Agreements or shall be applied (or, if the Debt Service Fund is then held by the Trustee, transferred by the State Treasurer to the Trustee and applied by the Trustee) as directed by the Authority to the payment of principal, Sinking Fund Installments, if any, or Redemption Price of or interest on Bonds issued for the related Project.

## **Capitalized Interest Accounts**

The Supplemental Resolution authorizing any Series of Bonds may establish a separate Account within the Debt Service Fund for each Project. Moneys in the Capitalized Interest Accounts shall be used, to the extent sufficient therefor, for the purpose of paying interest on the Series of Bonds in respect of which such moneys have been set aside, either directly therefrom or by transfer to the Debt Service Fund, prior to the payment of such interest from Annual Financing Charges.

## **Investment of Funds and Accounts**

Moneys in all Funds and Accounts shall be invested in Investment Obligations, except as may be otherwise limited by Supplemental Resolution.

Unexpended Bond proceeds and all Annual Financing Charges, Administrative Fees, and Legislative Appropriations, and investment earnings allocable thereto, held in Project Construction Accounts or in other Funds or Accounts, may be commingled for investment purposes either as a separate fund or as part of a common fund with other moneys of the Authority or the State, or otherwise; provided that (i) such investments and the income or interest earned, profits realized or losses suffered thereby shall be allocated and credited to the appropriate Funds or Accounts or otherwise in accordance with Authority and State policy, and (ii) all Funds and Accounts so commingled for investment purposes shall nevertheless be accounted for separately as required by the Resolution. Notwithstanding the foregoing, moneys on deposit with the State Treasurer (other than in connection with defeasance) may be invested at a rate or return fixed from time to time pursuant to State policy, without the necessity of allocating and crediting any particular investment (but only an amount invested) and without regard to actual investment, income, interest, profits or losses.

Except as otherwise provided in the Resolution, the Trustee or the State Treasurer, as the case may be, shall sell at the best price obtainable by the Trustee or the State Treasurer, as the case may be, through its ordinary and customary practices, or present for redemption or exchange, or as directed in writing by the Authority, any Investment Obligation held by it in any Fund or Account whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account for which such investment was made.

### **Certain Covenants of the Authority**

For a description of the agreement of the Authority on behalf of the State, pursuant to the Act, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Statutory Covenant" in the Official Statement.

*Creation of Liens.* Until the pledge created in the Resolution shall be discharged and satisfied as provided therein, the Authority shall not issue any bonds or other evidences of indebtedness, other than the Bonds (or any related Reimbursement Obligations) secured by a prior or equal pledge of the Annual Financing Charges, Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, the Financing Agreements, or any moneys and securities in the Debt Service Fund and Debt Service Reserve Fund, and shall not create or cause to be created any lien or charge equal or prior to the Bonds (or any related Reimbursement Obligations) on Annual Financing Charges Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, the Financing Agreements, in each such case except as permitted by the Resolution, or on any moneys and securities in the Debt Service Fund and Debt Service Reserve Fund.

*Tax Exemption.* The Authority may include in the applicable Supplemental Resolution for any Series of Bonds any and all covenants necessary or appropriate to maintain the exclusion from gross income for purposes of federal income taxation of interest on such Bonds. See "TAX MATTERS" in the Official Statement. The Authority may issue Bonds the interest on which is not intended to be excluded from gross income, and therefore may be taxable, for purposes of federal income taxation.

*Compliance with and Amendment of Financing Agreements.* The Authority will at all times comply with the covenants, terms and conditions of the Financing Agreements and shall take all steps, actions and proceedings as may be necessary in order to require compliance by the Boards with the covenants, terms and conditions thereof, the breach of which would in any way materially adversely affect or impair the obligation of the Boards to pay Annual Financing Charges and Legislative Appropriations at the times and in the manner and amounts provided in the Financing Agreements.

The Authority will not amend any Financing Agreement in any manner that would materially adversely affect or impair the obligation of the applicable Board to pay Annual Financing Charges or Legislative Appropriations at such times, in such manner and in such amounts sufficient, together with other moneys available for the purpose, to pay the principal of and Sinking Fund Installments and interest on the Bonds as the same becomes due and payable, but reserves the right to amend the Financing Agreements in any other respect without the consent of any Fiduciary or any Bondowner.

### **Supplemental Resolutions; Amendments**

The Authority may at any time or from time to time adopt Supplemental Resolutions without the consent of Bondowners and, except as may be agreed to in or in connection with any Credit Facility or Qualified Swap, the provider of any Credit Facility or Qualified Swap, for any one or more of the following purposes: (1) to authorize Bonds of a Series and, in connection therewith, specify and determine any matters and things relative to such Bonds which are not contrary to or inconsistent with the Resolution as theretofore in effect; (2) to establish for any Series of Bonds a separate Account in the Debt Service Reserve Fund which shall be permitted to be applied solely to the payment of Bonds of such Series, provided that (i) the Bonds of such Series shall have no claim or lien on nor be payable from any other amounts in the Debt Service Reserve Fund, (ii) the Bonds of such Series shall be excluded from the calculation of the Debt Service Reserve Requirement for all other Outstanding Bonds, and (iii) the amount required to be on deposit in such separate Accounts shall be specified or calculated in a manner specified in the Supplemental Resolution authorizing the Bonds of such Series, but in no event shall such amount, after giving effect to any Reserve Fund Credit Facility deposited in any such separate Account in the Debt Service Reserve Fund, be in excess of the amount that would otherwise be the Debt Service Reserve Requirement for such Series of Bonds assuming that such Series of Bonds were the only Series of Bonds Outstanding under the Resolution; (3) to modify, amend or supplement the Resolution in any manner in order to obtain or provide for or with respect to a Credit Facility, Reserve Fund Credit Facility or Qualified Swap with respect to any Series of Bonds, so long as the Authority determines that such Supplemental Resolution does not materially adversely affect the rights of the Owners of Outstanding Bonds; (4) to add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, provided that such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution as theretofore in effect; (5) to add to the Resolution any provisions relating to the application of interest

earnings in any Fund or Account required by law to preserve the exclusion from gross income for Federal income tax purposes of interest received on any Bonds then Outstanding or to be issued or the exemption of interest received on such Bonds from State income taxation; (6) to modify or eliminate any Debt Service Reserve Requirement in excess of the minimum required therefor as provided in the definition thereof; (7) to modify, amend or supplement the Resolution in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar Federal statute, or to permit the qualification of any Bonds for sale under the securities laws of any of the states of the United States of America, and to add such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939, as amended, or similar Federal statute; (8) with the consent of the Trustee, (i) to cure any ambiguity, or defect or inconsistent provision in the Resolution, or (ii) to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect; or to make any other modification or amendment of the Resolution which the Trustee shall in its sole discretion determine will not have a material adverse effect on the rights of Bondowners, provided that in making any such determination, the Trustee may conclusively rely upon a Counsel's Opinion or certificate of any Person deemed by the Trustee in its sole discretion to be reliable; (9) to comply with the requirements of any Rating Agency in order to maintain or improve a rating on the Bonds by such Rating Agency; or (10) to modify any of the provisions of the Resolution in any respect whatsoever, provided that such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution either shall cease to be Outstanding or the Owners of the requisite percentage of the principal amount of such Bonds shall have consented thereto.

Any modification or amendment of the Resolution and of the rights and obligations of the Authority and of the Owners of the Bonds under the Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent (a) of the Owners of at least fifty-one percent (51%) in principal amount of the Bonds Outstanding at the time such consent is given, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least fifty-one percent (51%) in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, or (c) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Owners of one hundred percent (100%) in principal amount of the Bonds of the particular Series, maturity and interest rate entitled to such Sinking Fund Installment Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds. No such modification or amendment shall (a) permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Bond, (b) permit the creation of any pledge, lien, charge or encumbrance of or upon any of the items purported to be pledged pursuant to the Resolution, which pledge, lien, charge or encumbrance would be prior to, or of equal rank with, the pledge or source of payment for the Bonds created by the Resolution, without the consent of the Owners of all Outstanding Bonds affected by such change, or deprive any Owner of any Outstanding Bond of the benefit of such pledge or source of payment for the Bonds, without the consent of such Owner, except as permitted by the Resolution, (c) create, with respect to the pledge of the items set forth in the Resolution, a preference or priority of any Bond over any other Bond without the consent of each Owner of a Bond affected by such change, or (d) reduce the percentages of the Bonds the consent of the Owners of which is required to waive an Event of Default or otherwise effect any such modification or amendment. For such purposes, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same materially adversely affects the rights of the Owners of Bonds of such Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any particular Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the Authority and all Owners of Bonds. The Trustee may receive an opinion of counsel, including a Counsel's Opinion, as conclusive evidence as to whether Bonds of any particular Series or maturity would be so affected by any such modification or amendment of the Resolution.

Notwithstanding anything in the Resolution to the contrary, the consent of Owners of any Series of additional Bonds to be issued under the Resolution shall be deemed given if the underwriters or initial purchasers for resale thereof consent in writing to any modification or amendment; provided, however, that such modification, amendment and consent are disclosed in the official statement or other offering document pursuant to which such Series of additional Bonds is offered and sold to the public.

For purposes of amendments to the Resolution, but only so long as the Credit Facility provider has not defaulted on its obligations under the Credit Facility, (i) the provider of a Credit Facility shall be considered the sole Owner of all Bonds to which such Credit Facility relates, except as otherwise provided in an applicable Supplemental Resolution, and (ii) any amendment provision of the Resolution may be waived by such provider with respect to its consent to any amendment, by an instrument in writing filed with the Authority and the Trustee.

The Authority shall furnish written notice to each Rating Agency of any amendment, change or modification of the Resolution.

### **Events of Default**

Each of the following events is an "Event of Default": (1) the Authority shall default in the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on any Bond when and as the same shall become due, whether at maturity or upon call for mandatory redemption or otherwise, which default shall continue for a period of thirty (30) days; (2) the pledge created in the Resolution shall, at any time and for any reason, cease to be in full force and effect or a judgment or order of any court of competent jurisdiction, or of any arbitrator or panel of arbitrators, as to which all appeals have been exhausted, shall be rendered which shall declare the pledge to be null and void, or shall declare that the pledge does not establish in any material respect the lien it purports to establish, or that the pledge is not for the exclusive benefit of the Owners of the Bonds, except as provided in or permitted by the Resolution; (3) the Authority shall fail or refuse to comply with the provisions of the Act as then in effect, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Resolution, any Supplemental Resolution, or in the Bonds, and such failure, refusal or default shall continue for a period of ninety (90) days after written notice thereof (specifying such default and requiring that such notice is a "Notice of Default" hereunder) is given to the Authority by the Trustee or to the Authority and the Trustee by the Owners of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds; however, in the event that the default be such that it cannot be corrected within such ninety (90) day period, it shall not constitute an Event of Default if corrective action is instituted by the Authority within such period and diligently pursued (as determined by the Trustee) until the default is corrected; (4) a court having jurisdiction in the premises shall enter a decree or order providing for relief in respect of the Authority or either Board in an involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Authority or either Board, or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs and such decree or order shall remain unstayed and in effect for a period of ninety (90) days; or (5) the Authority or either Board shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of the Authority or either Board, or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any action in furtherance of the foregoing.

Notwithstanding the foregoing, nothing in the Resolution shall preclude the Authority from seeking and obtaining from the General Assembly a change in law, to limit, modify, rescind, repeal or otherwise alter the character of the pledged items or to substitute like or different sources of fees, charges, appropriations or other receipts as pledged revenues if and when adequate provisions shall be made by law for the protection of the Owners of Outstanding Bonds pursuant to the proceedings under which the Bonds are issued, including changing or altering the method of establishing fees, charges and appropriations as contemplated by the Act. The Authority (or the Trustee at the request of the Authority) shall mail to the Bondowners notice of any such change or alteration pursuant to such proviso. The Authority shall file with the Trustee, or the Trustee shall retain on file, proof of their respective mailing of such notice to Bondowners. Such change or alteration shall be deemed conclusively binding upon the Authority, each Fiduciary and the Owners of all Bonds at the expiration of thirty (30) days after the filing with the Trustee of the proof of the mailing of notice referred to above, except in the event of a final decree of a court of competent jurisdiction setting aside such change or alteration in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period.

### **Remedies**

Upon the happening and continuance of (i) any Event of Default specified in clause (1), (4) or (5) of the first paragraph under "Events of Default" above, the Trustee shall proceed, and (ii) any other Event of Default, the Trustee may proceed, and upon the written request of the Owners of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds or if the Event of Default arises from the failure of the Authority to duly and punctually perform the tax covenants contained in the Resolution, twenty-five per centum (25%) in principal amount of the Outstanding Bonds of such Series affected thereby, shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondowners by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights: (1) by suit, action or proceeding at law or in equity in any court of competent jurisdiction, enforce all rights of the Bondowners, including the right to require the Authority to enforce the Agreements and collect the Annual Financing Charges and Legislative Appropriations payable thereunder, or to carry out any other covenant or agreement with Bondowners under the Resolution and to perform its duties under the Act, the Agreements and the Resolution; (2) bring suit upon the Bonds; (3) by action or suit, require the Authority to account as if it were the trustee of an express trust for the Owners of the Bonds; (4) by action or suit, enjoin any acts or things which may be unlawful or in violation of the rights of

the Owners of the Bonds; or (5) in accordance with the provisions of the Act, declare all Bonds due and payable, and if all defaults shall be made good, then, with the written consent of the Owners of not less than twenty-five percentum (25%) in principal amount of the Outstanding Bonds, to annul such declaration and consequences, but no such annulment shall extend to or effect any subsequent default or impair or exhaust any right or power consequent thereon.

All remedies conferred upon or reserved to the Owners of Bonds under the Resolution may be conferred upon and reserved in lieu thereof to the provider of a related Credit Facility authorized by a Supplemental Resolution. Nothing herein shall preclude the Authority from providing in an applicable Supplemental Resolution, or in any Credit Facility authorized thereby, that the exercise of any remedy hereunder or the waiver of any Event of Default hereunder by the Trustee or the Owner of any such Bond shall be subject to the prior written consent of the provider of any related Credit Facility.

No Owner of any Bond shall have any right to institute any suit, action, or other proceeding hereunder, or for the protection or enforcement of any right under the Resolution or any right under law unless such Owner shall have given to the Trustee written notice of the event of default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Owners of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

In the case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relating to the Authority, the Board or any Institution, or any property of the Authority, the Board or any Institution, the Trustee (whether or not the principal of the Bonds shall then be due and payable by acceleration or otherwise, and whether or not the Trustee shall have made any demand upon the Authority for the payment of overdue principal and interest) shall be entitled and empowered, by intervention in such proceeding or other means (1) to file and prove a claim for the whole amount of the principal, Redemption Price, if any, and interest owing and unpaid in respect of the Bonds then Outstanding and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Owners allowed in such proceeding; and (2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same.

Prior to the declaration of maturity of the Bonds as provided in the Resolution, the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Owners of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal of or premium, if any, on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

The Trustee shall promptly mail to the Bondowners notice of each Event of Default hereunder known to the Trustee within fifteen (15) Business Days after knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, however, that, except in the case of default in the payment of the principal, Sinking Fund Installment, if any, or Redemption Price, if any, of or interest on any of the Bonds, or in the making of any payment required to be made into the Debt Service Fund or the Debt Service Reserve Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Bondowners.

## **Defeasance**

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect of the Resolution, subject to an election of the Authority to the contrary. Any Outstanding Bonds of any Series shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect, but subject to such election, of the Resolution if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Registrar instructions accepted in writing by the Registrar to give notice of redemption, as provided in the Resolution, on said date of such Bonds (other than Bonds which have been purchased by a Paying Agent at the direction of the Authority or purchased or otherwise acquired by the Authority and delivered to a Paying Agent as hereinafter provided prior to the mailing of such notice of redemption), (b) there shall have been deposited with any Paying Agent either (i) moneys in an amount which shall be sufficient, or

(ii) Defeasance Obligations the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with such Paying Agent at the same time, shall be sufficient to pay, when due, the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Registrar in form satisfactory to it instructions to mail, as soon as practicable, a notice to the Owners of such Bonds, at their last addresses appearing upon the registry books at any time (but not more than fifteen (15) days) prior to such mailing, that the deposit required by (b) above has been made with a Paying Agent and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are expected to be available for the payment of the principal or Redemption Price, if applicable, of said Bonds (other than Bonds which have been purchased by a Paying Agent at the direction of the Authority or purchased or otherwise acquired by the Authority and delivered to a Paying Agent prior to the mailing of the notice of redemption referred to in clause (a) hereof). Such Paying Agent shall, as and to the extent necessary, apply moneys held by it pursuant to this Section to the retirement of Bonds in amounts equal to the unsatisfied balances (determined as provided in Section 604) of any Sinking Fund Installments with respect to such Bonds, all in the manner provided in the Resolution.

### **Unclaimed Moneys**

Any moneys held by a Fiduciary in trust for the payment and discharge of the principal or Redemption Price of or interest on any of the Bonds which remain unclaimed for three years (or such other period as may at the time be prescribed by the laws of the State) after the date when such principal, Redemption Price or interest, respectively, became due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for three years (or such other period as may be prescribed by the laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such principal, Redemption Price or interest, respectively, became due and payable, shall, at the written request of the Authority, be repaid by the Fiduciary to the Authority, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondowners shall look only to the Authority for the payment of such Bonds.

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Offered Bonds. The Offered Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Offered Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **[www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org)**.

Purchases of the Offered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Offered Bonds on DTC's records. The ownership interest of each actual purchaser of each Offered Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Offered Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Offered Bonds, except in the event that use of the book-entry system for the Offered Bonds is discontinued.

To facilitate subsequent transfers, all Offered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Offered Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Offered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Offered Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Offered Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Offered Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Offered Bond documents. For example, Beneficial Owners of the Offered Bonds may wish to ascertain that the nominee holding the Offered Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Offered Bonds of a maturity of a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity of such series to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Offered Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Offered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption premium, if any, payments on the Offered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or any Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Authority or any Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or any Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Offered Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

THE FOREGOING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY ONLY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY BELIEVES TO BE RELIABLE, BUT THE AUTHORITY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NONE OF THE AUTHORITY, TRUSTEE, REGISTRAR, PAYING AGENT OR UNDERWRITERS CAN MAKE ANY ASSURANCE THAT DTC OR THE DTC PARTICIPANTS WILL ACT IN A MANNER DESCRIBED HEREIN, NOR WILL THEY HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC ANY DIRECT DTC PARTICIPANT, OR BY ANY DIRECT DTC PARTICIPANT OR INDIRECT DTC PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM IF ANY, OR INTEREST ON OFFERED BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC OR ANY DTC PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATIONS TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND DOCUMENTS TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF OFFERED BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE OFFERED BONDS.

So long as Cede & Co. is the registered owners of the Offered Bonds, as nominee for DTC, references in the Official Statement to the Bondholders or registered owners of the Offered Bonds (other than under the caption "Tax Matters" in the Official Statement) shall mean Cede & Co. or any other DTC nominee, as aforesaid, and shall not mean the Beneficial Owners of the Offered Bonds.

## SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE UNDERTAKING

The following is a brief summary of certain provisions of the Continuing Disclosure Undertaking. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Continuing Disclosure Undertaking, copies of which are available at the offices of the Authority. For definitions of certain terms used but not defined herein, see Appendix C - "GLOSSARY OF CERTAIN TERMS".

The Authority has authorized a Continuing Disclosure Undertaking (the "Undertaking") with respect to the Offered Bonds to assist the Underwriters in complying with U.S. Securities and Exchange Commission ("SEC") Rule 15C2-12 (the "Rule"). In the Undertaking, the Authority will agree to provide the Annual Financial Information described below with respect to each fiscal year of the Authority, commencing with the fiscal year ending June 30, 2013, by no later than 7 months after the end of the respective fiscal year, to the Municipal Securities Rulemaking Board ("MSRB").

"Annual Financial Information" means updated versions of the following financial information and operating data contained in the Official Statement relating to the Offered Bonds with respect to the Authority, for each fiscal year of the Authority:

- Outstanding Second Program Bonds (see "The Authority – Outstanding Second Program Bonds of the Authority")
- Authorized and Outstanding Commercial Paper (see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinated Obligations; Commercial Paper")
- Tennessee Consolidated Retirement System financial information and operating data and Higher Education Employer Contributions (see "TENNESSEE PUBLIC HIGHER EDUCATION – Employee Retirement Benefits")
- Other Post-Employment Benefits unfunded liabilities and annual required contributions (see "TENNESSEE PUBLIC HIGHER EDUCATION – Other Post-Employment Benefits")
- Appendix B – Selected Statistical Information

The descriptions contained above are of general categories or types of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided in lieu of such information.

Annual Financial Information will include the annual financial statements of the Authority, audited by such auditors as shall then be required or permitted by State law ("Audited Financial Statements"), if available, or unaudited financial statements. If not provided as part of Annual Financial Information by the date referred to above because they are not available, the Authority will provide Audited Financial Statements, when and if available, to the MSRB. Audited Financial Statements will be prepared in accordance with generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them ("GAAP").

Annual Financial Information also will include the annual financial statements of the State, including component unit reporting of The University of Tennessee system and the Board of Trustees of the University of Tennessee, and of the State University and Community College System of the State of Tennessee and the Tennessee Board of Regents, showing information of the type described in the Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances for fiscal year 2012-2013, in each case audited by such auditors as shall then be required or permitted by State law, if available. If not provided as part of Annual Financial Information by the date referred to above because they are not available, the Authority will provide such audited financial statements, when and if available, to the MSRB. Such audited financial statements will be prepared in accordance with GAAP.

In the Undertaking, the Authority also agrees to provide, in a timely manner not in excess of 10 business days after the occurrence of the event, notice of each of the following events with respect to the Offered Bonds, to the MSRB:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;

- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2013 Bonds, or other material events affecting the tax status of the 2013 Bonds;
- (vii) modifications to rights of 2013 Bondholders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the 2013 Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the Authority;

(Note to clause (xii): For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Authority in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority.)

- (xiii) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The Authority will also provide, in a timely manner, notice of any failure of the Authority to provide the Annual Financial Information by the date specified above to the MSRB.

Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is [www.emma.msrb.org](http://www.emma.msrb.org).

All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB (currently, portable document format (pdf) word-searchable except for non textual elements) and shall be accompanied by identifying information as prescribed by the MSRB.

The Undertaking will be effective upon the issuance of the Offered Bonds and will terminate upon the legal defeasance, prior redemption or payment in full of all of the Offered Bonds. The Undertaking, or any provision thereof, shall be null and void in the event that the Authority (i) receives an opinion of counsel to the effect that those portions of the Rule which require the Undertaking, or such provision, as the case may be, do not or no longer apply to the Offered Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (ii) delivers copies of such opinion to the MSRB. The Undertaking also may be amended without the consent of the holders of the Offered Bonds in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules and regulations) or in interpretations thereof, or a change in the identity, nature or status of the Authority or the type of business conducted thereby, or if an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, which is applicable to the Undertaking, all as described in the Undertaking. Copies of any such amendment are required to be delivered to the MSRB.

The provisions of the Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Offered Bonds, except that beneficial owners of Offered Bonds shall be third-party beneficiaries of the Undertaking and shall be deemed to be holders of Offered Bonds for purposes of the next sentence. The obligations of the Authority to comply with the provisions of the Undertaking are enforceable by any holder of outstanding Offered Bonds; the holders' rights to enforce the provisions of the Undertaking are limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Authority's obligations under the Undertaking. Any failure by the Authority to perform in accordance with the Undertaking will not constitute a default or an event of default under the resolutions authorizing the Offered Bonds or State law and shall not result in any acceleration of payment of the Offered Bonds, and the rights and remedies provided by such resolutions and applicable State law upon the occurrence of such a default or an event of default shall not apply to any such failure.

The Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of the Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent the Undertaking addresses matters of federal securities laws, including the Rule, the Undertaking shall be construed in accordance with such federal securities laws and official interpretations thereof.

Certain financial information and operating data required to be filed with nationally recognized municipal securities repositories pursuant to previous Rule 15c2-12 continuing disclosure undertakings by the Authority were not timely filed but have since been filed with the MSRB through EMMA. This included, for fiscal year ending June 30, 2012, (a) the information in the tables entitled (i) "Disclosed TSSBA Funded Capital Projects" and (ii) "Comparison of Tennessee Undergraduate Universities to Southern Regional Education Board Median Annual Undergraduate Tuition and Required Fees", and (b) Tennessee Consolidated Retirement System financial information and operating data and Higher Education Employer Contributions, and Other Post-Employment Benefits unfunded liabilities and annual required contributions. In addition, certain available individual institution audit reports were not timely filed with EMMA, but have since been filed in all instances and in any event were and are available on the website of the Tennessee Comptroller of the Treasury. Apart from this, the Authority has not failed to comply in any material respect with any previous continuing disclosure undertaking in a written contract or agreement specified in Rule 15c2-12.

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**FORM OF PROPOSED OPINION OF BOND COUNSEL**

Tennessee State School Bond Authority  
Nashville, Tennessee

**TENNESSEE STATE SCHOOL BOND AUTHORITY  
HIGHER EDUCATIONAL FACILITIES SECOND PROGRAM BONDS  
2013 SERIES A, \$149,130,000**

Dear Sirs:

At your request, we have examined into the validity of \$149,130,000 principal amount of Higher Educational Facilities Second Program Bonds, 2013 Series A (the “2013 Bonds”) of the Tennessee State School Bond Authority (the “Authority”), a corporate agency and instrumentality of the State of Tennessee (the “State”).

The 2013 Bonds are issued under and pursuant to the Tennessee State School Bond Authority Act (Section 49-3-1201 et seq., Tennessee Code Annotated) as amended to date (the “Act”), the Higher Educational Facilities Second Program General Bond Resolution adopted by the Authority on April 27, 1998, as amended to date (the “General Resolution”) and a Supplemental Resolution of the Authority adopted on September 16, 2013 (the “Supplemental Resolution” and, collectively with the General Resolution, the “Resolution”).

We have examined the Constitution and laws of the State; certified copies of proceedings of the Authority authorizing the issuance of the 2013 Bonds, including the Resolution; a certified copy of a Second Program Financing Agreement by and between the Authority and the Board of Trustees of The University of Tennessee (the “Board of Trustees”) dated as of November 1, 1997, as amended to date; a certified copy of a Second Program Financing Agreement by and between the Authority and the Board of Regents of the State University and Community College System of the State of Tennessee (the “Board of Regents” and, together with the Board of Trustees, the “Boards”) dated as of November 1, 1997, as amended to date; certified copies of proceedings of the Authority authorizing the execution and delivery of said Second Program Financing Agreements (collectively, the “Second Program Financing Agreements”); such other instruments, documents, certificates and proceedings, and applicable law, as we have considered appropriate for purposes of this opinion; and a specimen 2013 Bond of each series.

Based on the foregoing, we are of the opinion that:

1. The Authority has the right and power under the Act to adopt the Resolution and the Resolution has been duly and lawfully adopted by the Authority, is in full force and effect, is valid and binding upon the Authority and is enforceable against the Authority in accordance with its terms. The Resolution creates the valid pledge which it purports to create of the Annual Financing Charges and Legislative Appropriations (as each is defined in the Resolution), and all rights under the Second Program Financing Agreements or otherwise to receive the same, and moneys and securities held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution.

2. The 2013 Bonds have been duly and validly authorized and issued in accordance with the laws of the State, including the Constitution of the State and the Act, and in accordance with the Resolution, and are entitled to the benefits of the Resolution and of the Act. The 2013 Bonds are valid and binding obligations of the Authority as provided in the Resolution, and are enforceable against the Authority in accordance with their terms and the terms of the Resolution, payable solely from the Annual Financing Charges, Legislative Appropriations and other moneys and securities held or set aside under the Resolution, subject to the application thereof to the purpose and on the conditions permitted by the Resolution. The Authority reserves the right to issue additional bonds on the terms and conditions, and for the purposes, provided in the General Resolution, on a parity of payment and security with the 2013 Bonds; provided, however, that as permitted by the General Resolution, certain series of bonds issued thereunder may not be payable from or secured by the Debt Service Reserve Fund on the same basis as others, and may not have any amount made available under the Resolution as a debt service reserve therefor (which initially is the case with the 2013 Bonds). The Authority has no taxing power, the State is not liable on the 2013 Bonds and the 2013 Bonds are not a debt of the State.
3. The Second Program Financing Agreements have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, constitute valid contractual obligations of the Authority. You have received opinions of counsel to the Board of Regents and counsel to the Board of Trustees to the effect that the respective Second Program Financing Agreements have been duly executed and delivered by the respective Boards and constitute valid contractual obligations thereof, and we express no opinion herein with respect thereto. The State has not waived the immunity of the State (including, for this purpose, the Authority and the Boards) from suit or extended its consent to be sued with respect to the Second Program Financing Agreements. Accordingly, monetary actions against the State (including the Authority and the Boards) for breach of contractual obligations relating to the Financing Agreements may be heard and determined under current law exclusively in the Tennessee Claims Commission, an administrative tribunal, where liability may be limited to actual damages and certain costs.
4. Under the existing laws of the State, the 2013 Bonds and income therefrom are free from taxation by the State or any county, municipality or political subdivision of the State, except for estate and gift taxes and taxes on transfers, and except to the extent such interest may be included within the measure of privilege taxes imposed pursuant to the laws of the State.
5. Under existing statutes and court decisions, interest on the 2013 Bonds (i) is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and (ii) is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering the opinions in this paragraph 5, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certification of fact, contained in certifications delivered on the date hereof by the Authority, the Boards and others with respect to the use of proceeds of the 2013 Bonds and the investment of certain funds, and other matters affecting the exclusion of interest on the 2013 Bonds from gross income for Federal income tax purposes under Section 103 of the Code, and (ii) compliance by the Authority and the Boards with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of the interest on the 2013 Bonds from gross income under Section 103 of the Code.

The opinions expressed in paragraphs 1, 2 and 3 above are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforceability is considered in a proceeding in equity or at law.

We express no opinion herein as to (i) Federal, state or local tax consequences arising with respect to the 2013 Bonds, or the ownership or disposition thereof, except as stated in paragraphs 4 and 5 above, (ii) Federal, state or local tax matters to the extent affected by any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves, or (iii) the accuracy, adequacy, sufficiency or completeness of the Official Statement

(or any update or amendment thereof or supplement thereto) of the Authority relating to the 2013 Bonds, or any other financial or other information which has been or may be supplied to purchasers or prospective purchasers of the 2013 Bonds.

This letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this letter to reflect any action hereafter taken or not taken, or any facts or circumstances, or changes in law or in interpretations thereof, that may hereafter occur, or for any other reason

Very truly yours,

**[THIS PAGE INTENTIONALLY LEFT BLANK]**



